

PROTECTIONISM AND POVERTY

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**PROTECTIONISM
AND POVERTY**

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Protectionism and Poverty

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This book is dedicated to
Jeff Deist
who is taking the Mises Institute
to a greater level of influence.

TABLE OF CONTENTS

Preface . . . . .	.ix
Introduction.	1

PART 1: FUNDAMENTALS

Introduction to Part 1	7
1. “I, Pencil” – Leonard E. Read . . . . .	.9
2. Petition of the Candlemakers – Frédéric Bastiat. . . . .	.15

PART 2: ECONOMIC ANALYSIS

Introduction to Part 2 . . . . .	.21
3. Free Trade: Litmus Test of Economics . . . . .	.23
4. Free Trade in the Bible . . . . .	.30
5. Statist Presuppositions of Protectionism . . . . .	.37
6. Hamiltonian Economics . . . . .	.48
7. Guns, Trade, and Subsidies . . . . .	.56
8. The Logic of Tariffs on Both Sides of the Border. . . . .	.64
9. Growing Toyotas, Manufacturing Soybeans . . . . .	.77
10. Envy, Asians, and Tariffs. . . . .	.86
11. How to Fight a Tariff War . . . . .	.94

PART 3: CLICHÉS OF PROTECTIONISM

Introduction to Part 3	105
12. “Tariffs Strengthen the Nation”.	107
13. “Buy American”.	111
14. “Free Trade Destroys Jobs”	118
15. “Tariffs Protect the American Worker”	121
16. “Free Trade Has Destroyed American Manufacturing”.	127
17. “Corporations That Hire Foreign Workers Are Irresponsible”	133
18. “American Workers Need Protection Against Slave Labor”.	136

TABLE OF CONTENTS

19. “America Needs to Negotiate Better Deals”	140
---	-----

PART 4: DIALOGUES ON TRADE

Introduction to Part 4	147
----------------------------------	-----

12. Smith, Wong, Borders, and Badges.	149
---	-----

13. “Buy American” vs. “Buy, American”.	152
---	-----

14. Export Taxes are a Bad Idea	158
---	-----

Conclusion.	164
---------------------	-----

Index	166
-----------------	-----

PREFACE

This book is a defense of free trade. It is therefore of necessity also an attack on protectionism: tariffs and quotas.

I argue that protectionism, when carried to its logical conclusion, leads to a complete collapse of the division of labor and therefore a complete collapse of society. Because promoters of tariffs and quotas are not imbeciles, they never follow the logic of their position as far as this logic requires: the cessation of trade as a way to increase wealth. If they did pursue it to its logical conclusion, they would look like fools. Nobody wants to look like a fool. So, they draw back from pushing their logic to its limits. They instead argue that it is mandatory for maximizing national wealth that there be tariffs on government-specified products from foreign nations. They refuse to push the logic of their position to include state borders, provincial borders, county borders, city borders, neighborhood borders, and the border down the middle of the street. They never explain why the economic logic that they say applies to national borders does not apply anywhere else. In other words, they use two systems of economic logic. Problem: logic is either unified or else it isn't logical. Conclusion: protectionists are not logical.

Protectionism rests on a presupposition: "Government interference with voluntary transactions can in some cases lead to greater wealth for a society." This is the heart, mind, and soul of the protectionist position. I argue throughout this book that this presupposition is incorrect. To make my case, I refute some of the more popular arguments that are offered by protectionists to prove that government intervention in the free market leads to greater wealth.

From time to time, I refer to the British economist John Maynard Keynes. This is because the protectionist position in favor of government intervention as a way to increase wealth was also argued by Keynes. The protectionist position is that of mercantilism. So is Keynesianism. Most Keynesians would resent this suggestion. Most of them would probably deny its accuracy. That is because few Keynesians have ever read Keynes' magnum

opus, *The General Theory of Employment, Interest, and Money* (1936). If they had read it, they would know that Keynes was an advocate of tariffs and mercantilism.

It is widely believed by economist historians that tariffs established by governments around the world in the 1930s increased the severity of the Great Depression. Keynesians today are generally in favor of low tariffs. So, they would find it inconceivable that the founder of their school of economic opinion was a defender of tariffs. Yet it is not only conceivable, it is a documented historical fact.

When Keynes wrote his first book, which made him famous, *The Economic Consequences of the Peace*, published in 1919, he was a defender of free trade. As an undergraduate, he had been the secretary of the Cambridge University Free Trade Association. In 1923, he wrote this: "We must hold to Free Trade, in its widest interpretation, as an inflexible dogma, to which no exception is admitted, wherever the decision rests with us. We must hold to this even where we receive no reciprocity of treatment and even in those rare cases where by infringing it we could in fact obtain a direct economic advantage. We should hold to Free Trade as a principle of international morals, and not merely as a doctrine of economic advantage."

By the time that he wrote *The General Theory*, he had changed his mind. So completely had he changed his mind that he ridiculed his youthful enthusiasm for free trade. Not many scholars ever go public with an admission comparable to this one, which appears on page 335:

It will be fairest, perhaps, to quote, as an example, when I wrote myself. So lately is 1923, is a faithful pupil of the classical school who did not at that time doubt what he had been taught and entertained on this matter no reserves at all, I wrote: if there is one thing that Protection can *not* do, it is to cure Unemployment. . . . There are some arguments for Protection, based upon its securing possible but improbable advantages, to which there is no simple answer. But the claim to cure unemployment involves the protectionist fallacy at its grossest and crudest form."

In the section that follows this statement, Keynes presented a partial defense of mercantilism. Here is the logic of mercantilism., he wrote "Between the judicial entities known as nations, tariffs can sometimes increase

the national wealth of the nation whose government imposes them.” Keynes did what all protectionists do: he refused to extend the logic of his position as far as the logic can and should be extended in order to defend the position. He pulled up short. He did not give a reason for pulling up short. He did not describe how politicians can accurately determine when to pull up short. He merely implied that it should. He wrote this about the balance of trade between nations: “For a favourable balance, provided it is not too large, will prove extremely stimulating; whilst an unfavorable balance may soon produce a state of persistent depression” (p. 338). How much is “not too large”? He never said.

In the next paragraph, he played the protectionist’s intellectual game. He refused to say what the limit of protectionism should be. He said that if this limit, which he never defined or even described, is ignored, then there will be adverse consequences. “It does not follow from this that the maximum degree of restriction of imports will promote the maximum favourable balance of trade. The earlier mercantilists lay great emphasis on this and were often to be found opposing trade restrictions because on a long view they were liable to operate adversely to a favorable balance” (p. 338). Keynes refused to follow the logic of the protectionist position to its inescapable conclusion: *the abolition of the division of labor*. He did what all protectionists do. He remained mute on both the logical and practical limits of the policy he recommended.

When I dismiss protectionism as Keynesianism, I am not misusing rhetoric. I am sticking to the historical facts. Keynes was a half-hearted protectionist, as they all are. None of them ever recommends a complete cessation of cross-border trade except during wartime. It is also worth noting that Keynes became an advocate of protectionism at the worst possible time in modern economic history. He promoted tariffs as a way for a national government to reduce unemployment during the worst depression since 1800. This was a policy guaranteed to increase unemployment, decrease personal wealth, and decrease national wealth. In no period of modern history did protectionism produce poverty on the scale that it did in the 1930s.

Keynesian economists do not like to admit this. It is just too embarrassing. Very few Keynesians have ever read *The General Theory*, so they are unaware of Keynes’ position. Their ignorance about Keynes’s position is matched by modern protectionists’ ignorance. In contrast, protectionists present themselves as defenders of the free market. They like to think of

themselves as being opposed to Keynesianism, which they correctly perceive as being favorable towards government intervention in the economy. Protectionists are wrong on both counts. First, they are not defenders of the free market. They are defenders of a government-guided market, just as Keynes was. Second, they are in favor of Keynes' view of tariffs in restraint of international trade as a way to increase employment. *Protectionists are Keynesians*. They are not self-conscious Keynesians, but they are Keynesians on this issue. They may resent this accusation, but this does not alter the historical facts. They have joined with Keynes by defending the supposed necessity of government interference with the free market in order to maximize national wealth.

This book is anti-Keynesian. Specifically, it is anti-Keynesian regarding the question of the effects of tariffs on personal wealth, national wealth, and international wealth. *Protectionism leads to poverty*. The reason why protectionism has not produced massive poverty is this: the protectionists are unwilling to follow the logic of their position. Therefore, national governments, except in wartime, have not attempted to abolish all imports.

A complete cessation of trade across borders is the inescapable logic of protectionism. Protectionism and poverty are connected logically. Protectionism when applied by governments reduces the division of labor, which in turn reduces productivity. *Reduced productivity produces poverty*. Protectionism would visibly produce poverty under these two conditions: (1) if protectionists were courageous enough to follow the logic of their position, and (2) if they were then successful in persuading national politicians to adopt their policy.

INTRODUCTION

Protectionism is a phrase used by defenders of free-market economic theory and economic practice. It is a negative term. But it is an accurate term. Defenders of tariffs and import quotas do so in the name of protecting people. These restrictions on trade supposedly protect workers, business owners, and the nation. Above all, they protect the nation. By invoking nationalism, defenders of trade restrictions gain political support.

I argue in this book that free trade, meaning voluntary exchange, increases individual wealth, and it also increases national wealth. This was the argument that Adam Smith used in 1776 in his famous book, *The Wealth of Nations*. But if this argument is true, then the opposite is also true. Restrictions on voluntary exchange increase the poverty of nations. If there were total restrictions on trade, poverty would be total. The human race would die out.

Arguments against free trade all have this in common: *they rely on coercion by the government*. All of them rely on a concept of the legitimacy of government agents with badges and guns who have the moral authority and legal right to stick a gun in the belly of one or more people who want to make a voluntary transaction. The government tells these people that they do not have the moral right or the legal authority to make such a transaction.

Think of two men: Jones and Smith. Jones wants to make a voluntary transaction with Smith. Brown is in competition against Smith. He does not want Jones to have a legal right to buy from Smith, despite the fact that Smith offers lower prices, better quality, or some other advantage which Brown either does not want to offer or is not in a position to offer.

Brown goes to the government and demands that Smith not be allowed to make this offer to Jones. He does so in the name of national prosperity. He persuades the government that any price-competitive offer from Smith to Jones will reduce the wealth of the nation. Therefore, he insists, the government has to send out someone with a badge and a gun to stop this kind of trade.

There is one other factor: an invisible line, called a border, which separates Jones and Smith. It is a legal border. It regulates who gets into the country, or who has a right to vote in the country, or who has the right to stay in the country.

In this case, Jones lives in the United States. So does Brown. Smith lives in Canada.

Certain borders in the United States and in most countries have no economic relevance to trade. Borders between provinces or counties have little or no economic relevance. Borders between states have little or no economic relevance. In fact, the Constitution of the United States was written by a group of participants who specifically had been assembled in Philadelphia in order to deal with the question of tariff barriers between states. The 1786 Annapolis Convention had been called to deal with this. It had failed. The Philadelphia Convention was the follow-up meeting. This is why the Constitution prohibits any tariffs established by state governments. The United States is a gigantic free-trade zone. It is unconstitutional for any state to impose tariffs against the imports from other states.

The only state border that is guarded is California's, and the justification for this is the protection of California agriculture from fruit flies and other bugs that might be attached to agricultural products that people carry in their cars into the state.

Tariff barriers and other import quotas that are established for any purposes other than revenue generation assume that the invisible line known as the national border is completely different, economically speaking, from all of the other invisible lines, also called borders, that exist inside the nation. No one accepts any of the arguments for restricting trade across the internal borders. Yet they accept these arguments with respect to national borders.

The chapters in this book detail the economic reasons why arguments in favor of restrictions on voluntary trade across the invisible lines known as borders are invalid from an economic point of view. These pro-tariff arguments are deceptive. They lead to policies which reduce most people's freedom, and most people's wealth.

Most of these arguments have been around for well over two centuries. Most of the arguments in favor of restrictions on trade have been around in the West for over 400 years. They promote a system called mercantilism.

Adam Smith became famous in 1776 for his arguments against mercantilism. Nevertheless, millions of people who claim to be defenders of

the free market, and who think they are followers of Adam Smith, hold exactly the positions that Adam Smith wrote his book to refute. It is one more case of self-interest and bad economic logic combining to confuse millions of voters.

Still, on the whole, the arguments in favor of free trade since 1960 have been persuasive in the United States. Most of the tariff barriers have come down. Most of the import quotas have come down. Democrats and Republicans have generally agreed that free trade is better for America than managed trade, at least with respect to imports.

Congressmen believe in mercantilism with respect to government subsidies for exports. This is completely illogical economically, given the case for free trade.

There is still managed trade by international bureaucracies, most notably the World Trade Organization. Another one was NAFTA (1994–2020): the North American Free Trade Agreement. It was replaced in March 2020 by the USMCA: United States-Mexico-Canada Agreement. These organizations are not in favor of free trade. They are in favor of bureaucratically managed trade. I am not a defender of these organizations.

Part 1
FUNDAMENTALS

INTRODUCTION TO PART 1

I begin with two essays that I did not write. I wish I had written both of them. The first essay is perhaps the most effective brief presentation ever written in favor of free trade: “I, Pencil.” It was written in 1958 by the man who hired me for my first full-time job in 1971, Leonard E. Read. He was the founder and the president of the Foundation for Economic Education. He was an effective writer and an effective speaker. He never went to college.

The essay is a brief autobiography of a pencil. It makes this fundamental point: *nobody knows how to make a pencil*. Then it explains why this is the case. The complexity of a pencil is so great that nobody understands how it can be produced. Every step of the process is highly complex, and nobody knows how to put all of the steps together. This is accomplished by voluntary exchange. It is accomplished by means of the market process. Once you read it, you will never forget it. That is why I begin this book with “I, Pencil.”

The second essay was written over a century before Read wrote his essay. The author was a French essayist and later a member of the French assembly. He also wrote a small book defending liberty, *The Law* (1850), the year of his death. He wrote another essay on the fallacy of the thing not seen, also known as the broken window fallacy. He also wrote that in 1850. I am reprinting an essay that he wrote in 1845, which is one of the truly great pieces of satire ever written: “The Petition of the Candlemakers.” It exposes the ludicrous nature of the call for government to impose tariffs in restraint of trade. The candlemakers petitioned against the unfair competition of sunlight. Sunlight was destroying their businesses. It was free to all. It had to be outlawed in order for the economy to grow. Once you read it, you will never forget it. That is why it is Chapter 2 of this book.

If you understand these two essays, the rest of this book will be simple. Yes, you may have to think about some argument. I have presented detailed chains of reasoning, and some of them may be too long. But if you forget one of the links in one of my long chains of reasoning, this really will not

matter. What you will remember is the autobiography of the pencil and the petition of the candlemakers. That is really all that you need to remember. The rest of the book is an extension of these two essays.

1

I, PENCIL

Leonard E. Read (1958)

These are introductory remarks a 1964 reprint of the article in Read's book, *Anything That's Peaceful*.

As I sat contemplating the miraculous make-up of an ordinary lead pencil, the thought flashed in mind: *I'll bet there isn't a person on earth who knows how to make even so simple a thing as a pencil.*

If this could be demonstrated, it would dramatically portray the miracle of the market and would help to make clear that all manufactured things are but manifestations of creative-energy exchanges, that these are, in fact, spiritual phenomena. The lessons in political economy this could teach!

There followed that not-to-be-forgotten day at the pencil factory, beginning at the receiving dock, covering every phase of countless transformations, and concluding in an interview with the chemist.

Had you seen what I saw, you, also, might have struck up a warm friendship with that amazing character, I, PENCIL.

Being a writer in his own right, let I, PENCIL speak for himself:

I am a lead pencil—the ordinary wooden pencil familiar to all boys and girls and adults who can read and write.

Writing is both my vocation and my avocation; that's all I do.

* * * * *

You may wonder why I should write a genealogy. Well, to begin with, my story is interesting. And, next, I am a mystery—more so than a tree or a sunset or even a flash of lightning. But, sadly, I am taken for granted by those who use me, as if I were a mere incident and without background. This supercilious attitude relegates me to the level of the commonplace. This is a species of the grievous error in which mankind cannot too long persist without peril.

For, the wise G. K. Chesterton observed, "We are perishing for want of wonder, not for want of wonders."

I, Pencil, simple though I appear to be, merit your wonder and awe, a claim I shall attempt to prove. In fact, if you can understand me—no, that's too much to ask of anyone—if you can become aware of the miraculousness which I symbolize, you can help save the freedom mankind is so unhappily losing. I have a profound lesson to teach. And I can teach this lesson better than can an automobile or an airplane or a mechanical dishwasher because—well, because I am seemingly so simple.

Simple? Yet, not a single person on the face of this earth knows how to make me. This sounds fantastic, doesn't it? Especially when it is realized that there are about one and one-half billion of my kind produced in the U.S.A. each year.

Pick me up and look me over. What do you see? Not much meets the eye—there's some wood, lacquer, the printed labeling, graphite lead, a bit of metal, and an eraser.

Innumerable Antecedents

Just as you cannot trace your family tree back very far, so is it impossible for me to name and explain all my antecedents. But I would like to suggest enough of them to impress upon you the richness and complexity of my background.

My family tree begins with what in fact is a tree, a cedar of straight grain that grows in Northern California and Oregon. Now contemplate all the saws and trucks and rope and the countless other gear used in harvesting and carting the cedar logs to the railroad siding. Think of all the persons and the numberless skills that went into their fabrication: the mining of ore, the making of steel and its refinement into saws, axes, motors; the growing of hemp and bringing it through all the stages to heavy and strong rope; the logging camps with their beds and mess halls, the cookery and the raising of all the foods. Why, untold thousands of persons had a hand in every cup of coffee the loggers drink!

The logs are shipped to a mill in San Leandro, California. Can you imagine the individuals who make flat cars and rails and railroad engines and who construct and install the communication systems incidental thereto? These legions are among my antecedents.

Consider the millwork in San Leandro. The cedar logs are cut into small, pencil-length slats less than one-fourth of an inch in thickness. These are kiln dried and then tinted for the same reason women put rouge

on their faces. People prefer that I look pretty, not a pallid white. The slats are waxed and kiln dried again. How many skills went into the making of the tint and the kilns, into supplying the heat, the light and power, the belts, motors, and all the other things a mill requires? Sweepers in the mill among my ancestors? Yes, and included are the men who poured the concrete for the dam of a Pacific Gas & Electric Company hydroplant which supplies the mill's power!

Don't overlook the ancestors present and distant who have a hand in transporting sixty carloads of slats across the nation.

Once in the pencil factory—\$4,000,000 in machinery and building, all capital accumulated by thrifty and saving parents of mine—each slat is given eight grooves by a complex machine, after which another machine lays leads in every other slat, applies glue, and places another slat atop—a lead sandwich, so to speak. Seven brothers and I are mechanically carved from this "wood-clinched" sandwich.

My "lead" itself—it contains no lead at all—is complex. The graphite is mined in Ceylon [Sri Lanka]. Consider these miners and those who make their many tools and the makers of the paper sacks in which the graphite is shipped and those who make the string that ties the sacks and those who put them aboard ships and those who make the ships. Even the lighthouse keepers along the way assisted in my birth—and the harbor pilots.

The graphite is mixed with clay from Mississippi in which ammonium hydroxide is used in the refining process. Then wetting agents are added such as sulfonated tallow—animal fats chemically reacted with sulfuric acid. After passing through numerous machines, the mixture finally appears as endless extrusions—as from a sausage grinder—cut to size, dried, and baked for several hours at 1,850 degrees Fahrenheit. To increase their strength and smoothness the leads are then treated with a hot mixture which includes candelilla wax from Mexico, paraffin wax, and hydrogenated natural fats.

My cedar receives six coats of lacquer. Do you know all the ingredients of lacquer? Who would think that the growers of castor beans and the refiners of castor oil are a part of it? They are. Why, even the processes by which the lacquer is made a beautiful yellow involve the skills of more persons than one can enumerate!

Observe the labeling. That's a film formed by applying heat to carbon black mixed with resins. How do you make resins and what, pray, is carbon black?

My bit of metal—the ferrule—is brass. Think of all the persons who mine

zinc and copper and those who have the skills to make shiny sheet brass from these products of nature. Those black rings on my ferrule are black nickel. What is black nickel and how is it applied? The complete story of why the center of my ferrule has no black nickel on it would take pages to explain.

Then there's my crowning glory, inelegantly referred to in the trade as "the plug," the part man uses to erase the errors he makes with me. An ingredient called "factice" is what does the erasing. It is a rubber-like product made by reacting rapeseed oil from the Dutch East Indies [Indonesia] with sulfur chloride. Rubber, contrary to the common notion, is only for binding purposes. Then, too, there are numerous vulcanizing and accelerating agents. The pumice comes from Italy; and the pigment which gives "the plug" its color is cadmium sulfide.

No One Knows

Does anyone wish to challenge my earlier assertion that no single person on the face of this earth knows how to make me?

Actually, millions of human beings have had a hand in my creation, no one of whom even knows more than a very few of the others. Now, you may say that I go too far in relating the picker of a coffee berry in far-off Brazil and food growers elsewhere to my creation; that this is an extreme position. I shall stand by my claim. There isn't a single person in all these millions, including the president of the pencil company, who contributes more than a tiny, infinitesimal bit of know-how. From the standpoint of know-how the only difference between the miner of graphite in Ceylon and the logger in Oregon is in the type of know-how. Neither the miner nor the logger can be dispensed with, any more than can the chemist at the factory or the worker in the oil field—paraffin being a by-product of petroleum.

Here is an astounding fact: Neither the worker in the oil field nor the chemist nor the digger of graphite or clay nor any who mans or makes the ships or trains or trucks nor the one who runs the machine that does the knurling on my bit of metal nor the president of the company performs his singular task because he wants me. Each one wants me less, perhaps, than does a child in the first grade. Indeed, there are some among this vast multitude who never saw a pencil nor would they know how to use one. Their motivation is other than me. Perhaps it is something like this: Each of these millions sees that he can thus exchange his tiny know-how for the goods and services he needs or wants. I may or may not be among these items.

No Master Mind

There is a fact still more astounding: The absence of a master mind, of anyone dictating or forcibly directing these countless actions which bring me into being. No trace of such a person can be found. Instead, we find the Invisible Hand at work. This is the mystery to which I earlier referred.

It has been said that "only God can make a tree." Why do we agree with this? Isn't it because we realize that we ourselves could not make one? Indeed, can we even describe a tree?

We cannot, except in superficial terms. We can say, for instance, that a certain molecular configuration manifests itself as a tree. But what mind is there among men that could even record, let alone direct, the constant changes in molecules that transpire in the life span of a tree? Such a feat is utterly unthinkable!

I, Pencil, am a complex combination of miracles: a tree, zinc, copper, graphite, and so on. But to these miracles which manifest themselves in Nature an even more extraordinary miracle has been added: the configuration of creative human energies—millions of tiny know-hows configuring naturally and spontaneously in response to human necessity and desire and in the absence of any human masterminding! Since only God can make a tree, I insist that only God could make me. Man can no more direct these millions of know-hows to bring me into being than he can put molecules together to create a tree.

The above is what I meant when writing, "If you can become aware of the miraculousness which I symbolize, you can help save the freedom mankind is so unhappily losing." For, if one is aware that these know-hows will naturally, yes, automatically, arrange themselves into creative and productive patterns in response to human necessity and demand— that is, in the absence of governmental or any other coercive master-minding—then one will possess an absolutely essential ingredient for freedom: a faith in free people. Freedom is impossible without this faith.

Once government has had a monopoly of a creative activity such, for instance, as the delivery of the mails, most individuals will believe that the mails could not be efficiently delivered by men acting freely. And here is the reason: Each one acknowledges that he himself doesn't know how to do all the things incident to mail delivery. He also recognizes that no other individual could do it. These assumptions are correct. No individual possesses enough know-how to perform a nation's mail delivery any more than any

individual possesses enough know-how to make a pencil. Now, in the absence of faith in free people—in the unawareness that millions of tiny know-hows would naturally and miraculously form and cooperate to satisfy this necessity—the individual cannot help but reach the erroneous conclusion that mail can be delivered only by governmental “masterminding.”

Testimony Galore

If I, Pencil, were the only item that could offer testimony on what men and women can accomplish when free to try, then those with little faith would have a fair case. However, there is testimony galore; it’s all about us and on every hand. Mail delivery is exceedingly simple when compared, for instance, to the making of an automobile or a calculating machine or a grain combine or a milling machine or to tens of thousands of other things. Delivery? Why, in this area where men have been left free to try, they deliver the human voice around the world in less than one second; they deliver an event visually and in motion to any person’s home when it is happening; they deliver 150 passengers from Seattle to Baltimore in less than four hours; they deliver gas from Texas to one’s range or furnace in New York at unbelievably low rates and without subsidy; they deliver each four pounds of oil from the Persian Gulf to our Eastern Seaboard—halfway around the world—for less money than the government charges for delivering a one-ounce letter across the street!

The lesson I have to teach is this: Leave all creative energies uninhibited. Merely organize society to act in harmony with this lesson. Let society’s legal apparatus remove all obstacles the best it can. Permit these creative know-hows freely to flow. Have faith that free men and women will respond to the Invisible Hand. This faith will be confirmed. I, Pencil, seemingly simple though I am, offer the miracle of my creation as testimony that this is a practical faith, as practical as the sun, the rain, a cedar tree, the good earth.

* * * * *

For a short video on how pencils are made, using old technologies that are still in use, go here:

bit.ly/PencilVideo

2

PETITION OF THE CANDLE MAKERS

Frédéric Bastiat (1845)

A PETITION From the Manufacturers of Candles, Tapers, Lanterns, Sticks, Street Lamps, Snuffers, and Extinguishers, and from Producers of Tallow, Oil, Resin, Alcohol, and Generally of Everything Connected with Lighting.

To the Honourable Members of the Chamber of Deputies.

Open letter to the French Parliament (1845)

Gentlemen:

You are on the right track. You reject abstract theories and have little regard for abundance and low prices. You concern yourselves mainly with the fate of the producer. You wish to free him from foreign competition, that is, to reserve the domestic market for domestic industry.

We come to offer you a wonderful opportunity for your—what shall we call it? Your theory? No, nothing is more deceptive than theory. Your doctrine? Your system? Your principle? But you dislike doctrines, you have a horror of systems, as for principles, you deny that there are any in political economy; therefore we shall call it your practice—your practice without theory and without principle.

We are suffering from the ruinous competition of a rival who apparently works under conditions so far superior to our own for the production of light that he is flooding the domestic market with it at an incredibly low price; for the moment he appears, our sales cease, all the consumers turn to him, and a branch of French industry whose ramifications are innumerable is all at once reduced to complete stagnation. This rival, which is none other than the sun, is waging war on us so mercilessly we suspect he is being stirred up against us by perfidious Albion (excellent diplomacy nowadays!), particularly because he has for that haughty island a respect that he does not show for us.

We ask you to be so good as to pass a law requiring the closing of all windows, dormers, skylights, inside and outside shutters, curtains, case-ments, bull'seyes, deadlights, and blinds—in short, all openings, holes, chinks, and fissures through which the light of the sun is wont to enter houses, to the detriment of the fair industries with which, we are proud to say, we have endowed the country, a country that cannot, without betraying ingratitude, abandon us today to so unequal a combat.

Be good enough, honourable deputies, to take our request seriously, and do not reject it without at least hearing the reasons that we have to advance in its support.

First, if you shut off as much as possible all access to natural light, and thereby create a need for artificial light, what industry in France will not ultimately be encouraged?

If France consumes more tallow, there will have to be more cattle and sheep, and, consequently, we shall see an increase in cleared fields, meat, wool, leather, and especially manure, the basis of all agricultural wealth.

If France consumes more oil, we shall see an expansion in the cultivation of the poppy, the olive, and rapeseed. These rich yet soil-exhausting plants will come at just the right time to enable us to put to profitable use the increased fertility that the breeding of cattle will impart to the land.

Our moors will be covered with resinous trees. Numerous swarms of bees will gather from our mountains the perfumed treasures that today waste their fragrance, like the flowers from which they emanate. Thus, there is not one branch of agriculture that would not undergo a great expansion.

The same holds true of shipping. Thousands of vessels will engage in whaling, and in a short time we shall have a fleet capable of upholding the honour of France and of gratifying the patriotic aspirations of the undersigned petitioners, chandlers, etc.

But what shall we say of the specialities of Parisian manufacture? Henceforth you will behold gilding, bronze, and crystal in candlesticks, in lamps, in chandeliers, in candelabra sparkling in spacious emporia compared with which those of today are but stalls.

There is no needy resin-collector on the heights of his sand dunes, no poor miner in the depths of his black pit, who will not receive higher wages and enjoy increased prosperity.

It needs but a little reflection, gentlemen, to be convinced that there is perhaps not one Frenchman, from the wealthy stockholder of the Anzin

Company to the humblest vendor of matches, whose condition would not be improved by the success of our petition.

We anticipate your objections, gentlemen; but there is not a single one of them that you have not picked up from the musty old books of the advocates of free trade. We defy you to utter a word against us that will not instantly rebound against yourselves and the principle behind all your policy.

Will you tell us that, though we may gain by this protection, France will not gain at all, because the consumer will bear the expense?

We have our answer ready:

You no longer have the right to invoke the interests of the consumer. You have sacrificed him whenever you have found his interests opposed to those of the producer. You have done so in order to encourage industry and to increase employment. For the same reason you ought to do so this time too.

Indeed, you yourselves have anticipated this objection. When told that the consumer has a stake in the free entry of iron, coal, sesame, wheat, and textiles, “Yes,” you reply, “but the producer has a stake in their exclusion.” Very well, surely if consumers have a stake in the admission of natural light, producers have a stake in its interdiction.

“But,” you may still say, “the producer and the consumer are one and the same person. If the manufacturer profits by protection, he will make the farmer prosperous. Contrariwise, if agriculture is prosperous, it will open markets for manufactured goods.” Very well, If you grant us a monopoly over the production of lighting during the day, first of all we shall buy large amounts of tallow, charcoal, oil, resin, wax, alcohol, silver, iron, bronze, and crystal, to supply our industry; and, moreover, we and our numerous suppliers, having become rich, will consume a great deal and spread prosperity into all areas of domestic industry.

Will you say that the light of the sun is a gratuitous gift of Nature, and that to reject such gifts would be to reject wealth itself under the pretext of encouraging the means of acquiring it?

But if you take this position, you strike a mortal blow at your own policy; remember that up to now you have always excluded foreign goods because and in proportion as they approximate gratuitous gifts. You have only half as good a reason for complying with the demands of other monopolists as you have for granting our petition, which is in complete accord with your established policy; and to reject our demands precisely because they are better

founded than anyone else's would be tantamount to accepting the equation: $+x + =$; in other words, it would be to heap absurdity upon absurdity.

Labour and Nature collaborate in varying proportions, depending upon the country and the climate, in the production of a commodity. The part that Nature contributes is always free of charge; it is the part contributed by human labour that constitutes value and is paid for.

If an orange from Lisbon sells for half the price of an orange from Paris, it is because the natural heat of the sun, which is, of course, free of charge, does for the former what the latter owes to artificial heating, which necessarily has to be paid for in the market.

Thus, when an orange reaches us from Portugal, one can say that it is given to us half free of charge, or, in other words, at half price as compared with those from Paris.

Now, it is precisely on the basis of its being semigratuitous (pardon the word) that you maintain it should be barred. You ask: "How can French labour withstand the competition of foreign labour when the former has to do all the work, whereas the latter has to do only half, the sun taking care of the rest?" But if the fact that a product is half free of charge leads you to exclude it from competition, how can its being totally free of charge induce you to admit it into competition? Either you are not consistent, or you should, after excluding what is half free of charge as harmful to our domestic industry, exclude what is totally gratuitous with all the more reason and with twice the zeal.

To take another example: When a product—coal, iron, wheat, or textiles—comes to us from abroad, and when we can acquire it for less labour than if we produced it ourselves, the difference is a gratuitous gift that is conferred up on us. The size of this gift is proportionate to the extent of this difference. It is a quarter, a half, or threequarters of the value of the product if the foreigner asks of us only threequarters, onehalf, or onequarter as high a price. It is as complete as it can be when the donor, like the sun in providing us with light, asks nothing from us. The question, and we pose it formally, is whether what you desire for France is the benefit of consumption free of charge or the alleged advantages of onerous production. Make your choice, but be logical; for as long as you ban, as you do, foreign coal, iron, wheat, and textiles, in proportion as their price approaches zero, how inconsistent it would be to admit the light of the sun, whose price is zero all day long!

Part 2

ECONOMIC ANALYSIS

INTRODUCTION TO PART 2

Part 2 is a defense of free trade. But the defense is mostly a negative exercise. It is an extended critique of interventionism, also called protectionism. What you will read here is conventional. Economists have been making arguments like these ever since David Hume wrote his essay on trade in 1752.

Most people hear arguments in favor of protectionism before they hear arguments in favor of free trade. What people regard as common-sense economic logic leads to an outlook favorable toward tariffs. I think the reason for this is that people tend to think in terms of nations rather than individual exchange. They do not start with a pair of individuals seeking to improve their circumstances. They do not understand that people seek opportunities to trade as a way of improving their circumstances. So, they come to this question by way on appeal to some form of nationalism. Sometimes this is reinforced by an appeal to patriotism. The problem with this is that it begins with aggregates: nations. It assumes that nations trade with nations. It then equates nations with national civil governments. People are led to believe that what is good for the national civil government is good for the nation, and what is good for the nation is good for individuals.

The case for the free market should not begin with the aggregates known as nations. It should begin with individual decision-making. When people begin with individual decision-making, they are less likely to be sidetracked by arguments for protectionism. People can understand how they make decisions personally. They can understand why other people agree to trade with them. These are familiar markers in people's lives. Free-market economics is best defended when people start with the concept of individual ownership. Christian economics starts with God's ownership, which he delegates partially to individuals and groups. If we start with the nation, this implicitly assumes that nations own the property within their borders. This is incorrect. If we start here, we are halfway down the path to protectionism. It is methodologically improper to start with the nation-

state in economic analysis. If we start with the nation-state, we will end with the nation-state.

A reader who is not familiar with the case for free trade should be able to follow the arguments in Part 2. Chapter 3 is a defense of free trade, but the remainder of the chapters in Part 2 are devoted to refutations of popular arguments presented by defenders of protectionism. The fundamental point to remember is this: *a tariff is a sales tax on imported goods*. Defenders of protectionism substitute the word “tariff” the far less popular words: “sales tax.” If listeners understood from the beginning of any discussion in favor of tariffs that the promoter of tariffs is a promoter of sales taxes, they would be less ready to accept the superficial logic of protectionism. If they initially understood that tariffs are sales taxes that will reach into their wallets, they would be less likely to climb on board the political bandwagon known as protectionism.

3

FREE TRADE: LITMUS TEST OF FREE MARKET ECONOMICS

Free trade is a litmus test of economic reasoning. It has been ever since David Hume wrote his 1752 essay on commerce. He argued that a kingdom, meaning a nation, that allows free trade across its borders possesses greater national wealth than a nation with tariffs and other restrictions on foreign trade. It has greater industry. It is richer and more powerful. He used arguments against mercantilists, who focused on national wealth rather than individual wealth.

Foreign trade, by its imports, furnishes materials for new manufactures; and by its exports, it produces labour in particular commodities, which could not be consumed at home. In short, a kingdom, that has a large import and export, must abound more with industry, and that employed upon delicacies and luxuries, than a kingdom which rests contented with its native commodities. It is, therefore, more powerful, as well as richer and happier. The individuals reap the benefit of these commodities, so far as they gratify the senses and appetites. And the public is also a gainer, while a greater stock of labour is, by this means, stored up against any public exigency; that is, a greater number of laborious men are maintained, who may be diverted to the public service, without robbing any one of the necessities, or even the chief conveniencies of life.

His friend Adam Smith made free trade the touchstone of his economic logic. His great work, *The Wealth of Nations* (1776), challenged the mercantilists, who believed in the mixed economy: free markets, but with state-granted monopolies and tariffs.

Mercantilism is the default setting for most people. It is based on trust in state power. As I have put it, it is faith in the economic productivity of men with badges and guns.

A. The Economic Blindness of Mercantilists

I have never had any illusions about persuading people who trust in the creativity of badges and guns. The universal trust in state power in every area of life is an extension of what I call the power religion. It is the religion of every empire.

Free trade means free choice. Power-lovers hate free choice, so they hate free trade.

In 1972, I wrote an Introduction to the reprint of my 1969 article, "Tariff War, Libertarian Style." I reprinted it in my book, *An Introduction to Christian Economics* (1973). The introduction deals with the inability of rational people to understand the logic of economics. I wrote this:

We come now to the economic issue that separates the economists from the special interest pleaders. There are a lot of supposedly free market capitalists who shout the praises of open competition, but when the chips are really down, they call for the intervention of the monopolistic, coercive State to keep Americans from trading with other Free World countries. Competition among Americans, but not between American companies and foreign companies: here is the cry of the tariff advocates. The fact that less than 5% of our economy is directly involved in foreign trade never phases these enthusiasts: free trade is "destroying" the other 95% of the American economy! Somehow, the principles of capitalism operate only within national boundaries. Somehow the intervention of the State will "protect" Americans. Henry Hazlitt's classic little book, *Economics in One Lesson*, so completely destroys the arguments of the tariff supporters that there is nothing left of their position; still they keep coming. For two centuries their position has been intellectually bankrupt; still they keep coming. Tariffs hurt all consumers except those on the public dole of tariff intervention, e.g., the "infant industries" such as steel or textiles. Yet the advocates say that all Americans are "protected." The logic of economics cannot seem to penetrate otherwise rational minds.

Postscript: I rejoice that the 5% of GDP figure is now close to 25%. The idea of free trade has spread. As a result, the world is richer than it was in 1973.

B. State Worship

The defenders of mercantilism have a religion: the religion of state worship. They do not believe that individuals acting in their own selfinterest by trading with each other in order to benefit themselves are reliable sources of innovation, exploration, and creativity. They believe that the free market is an incomplete organization. They believe that there must be a sovereign judicial entity which provides guidance, by which they really mean coercion, in directing the flow of scarce economic resources. They believe that bureaucrats are trustworthy, that politicians act in the interest of the people. They believe that the state is a reliable source of economic wisdom. It possesses correct understanding of the economic future, and is therefore the proper agency to balance supply with demand. The economy, we are told, needs state coercion to achieve this. I describe this as follows: badges and guns.

Mercantilism is always a philosophy of state power. Mercantilism says that the state has a superior interest to the individuals who live under its jurisdiction. Anything that weakens the nation-state, anything that benefits individuals at the expense of the state, anything that elevates the judgment of property owners above the judgment of politicians and bureaucrats is considered by the mercantilist to be an enemy of the state, meaning an enemy of society, meaning an enemy of the nation.

Mercantilists in the 17th century said that they believed in markets, but only regulated markets. They believed in monopolies granted by the state. They believed in exchange, but only when regulated by the state. What they really believed in was the expansion of the power of the state. They believed that the wisdom given to state bureaucrats is greater than the wisdom given to society as a whole by means of knowledge possessed by individuals. They believed that centralized knowledge, which is based on statistics collected by force by state bureaucrats, is better than, meaning superior to, meaning more productive than information possessed by individual property owners. The information possessed by property owners is considered inferior knowledge.

Mercantilism is the philosophy of state coercion as a way to increase the wealth of the state. Mercantilism is the philosophy of creativity in the realm of government bureaucracy. Mercantilism is the belief that individuals who, as individuals, have no particular advantage in knowledge, when given a badge and a gun, become wiser than individuals who pursue their own self-

interest with their own property. Politicians are believed to be wiser, and also disinterested personally.

C. The Economics of Special Interests

Special-interest groups have used this widespread faith—a faith now fading—to persuade voters that politicians and bureaucrats are reliable decision-makers who act only in the interest of the voters. They tell the voters that politicians want to make certain that workers are defended against unscrupulous, low-cost, foreign workers who make offers to sell goods at low prices to customers all over the world.

The mercantilists' belief is this: individuals who want to buy from foreigners are misguided. In what way? Because foreigners as producers (exporters) are a threat to the prosperity of workers, even though foreigners as consumers (importers) are a benefit to the prosperity of those same domestic workers. Mercantilists rarely discuss foreigners as consumers-importers. This would weaken the appeal of their arguments in favor of restricted trade. Mercantilism rests on the belief that a nation's workers, in their capacity as workers, are incapable of effective competition against foreigners. They need help from politicians and bureaucrats to maintain their income.

The mercantilist philosophy also says that an individual is equally incapable of understanding his best interest as a customer, and this is proven by the fact that he is willing to buy something produced by a foreigner rather than by somebody inside his nation's geographical boundaries. In other words, *the citizen is incompetent*. He is incompetent to compete in the world market, and he is also incompetent to judge what is really good for him and the nation.

So, in order to overcome the two-fold ignorance and weakness of a nation's customers, the mercantilist economist says that he can solve the problem by persuading politicians to tax imports. This is a safe strategy, we are assured by mercantilists, because politicians' main goal in life is to make things better for the voters. Voters should trust the good intentions of politicians and the informed decisions of tenured bureaucrats who cannot be fired if their decisions cause harm.

When put this way, no conservative will admit to being a mercantilist. Yet every conservative who defends tariffs as anything other than revenue-generating taxes is in fact a mercantilist, and by necessity he must accept the mercantilist philosophy of life: faith in state power over the economy.

D. Gun in the Belly

The mercantilists are statist, and so is every conservative who believes that a tariff can benefit the broad masses of consumers and workers. Every philosophy of mercantilism is a philosophy of a gun stuck in the belly of another American. Every mercantilist idea is a defense of gun-in-the-belly economics.

I have only heard one conservative admit this. It was at a dinner party in 1976. I had been invited by a man I knew who was on the staff of Senator Jesse Helms. I was on the staff of Congressman Ron Paul. At the meeting, there was a man I had never seen before. He was an oaf. The group got into a discussion of free trade. Here is what he said: "I will tell you what free trade is. It is when I put the barrel of my .45 at the head of some gook and tell him: 'We're going to trade, and we're going to trade on my terms.'"

The mercantilist does not tell a citizen what he must trade. He only tells him what he may not trade and with whom he is allowed to trade. This is a negative philosophy of government control. It is control by prohibition, not control by active compulsion. It is not socialism: government ownership of the means of production. It is rather the right of a government agent to stick a gun in the belly of a citizen who wants to trade with a foreigner, and to tell him that he does not have the right to do so without paying the government some money. In short, it is a judicial philosophy of extortion.

Even worse are quotas. Quotas do not even get the government any tax money. Quotas transfer all of the extorted wealth to domestic producers of whatever item is being protected, meaning forbidden to buy from sellers located outside the nation. The classic example in the USA is sugar. Quotas are ways to subsidize farmers who grow corn and sugarcane at the expense of foreign farmers who grow sugarcane. It is coercion against all those customers who prefer the taste of cheap sugar to fructose.

Quotas are great for Louisiana sugarcane growers, who get to sell their product at a high price. It is not great for candy manufacturers. It is not great for people who love the taste of sugar. But mercantilists believe that politicians have a perfect right to sell their votes to sugarcane growers and corn growers at the expense of the personal tastes of candy lovers, soda pop lovers, and other consumers of sugar. It is a philosophy of political sugar daddies at the expense of sugar lovers.

This analysis is resented by the gun-loving, badge-loving, head-banging, power-seeking, economics-hating conservatives, who I call **Hamiltonians**.

They identify themselves as lovers of freedom. But they are not lovers of freedom; they are lovers of *selective coercion*. They believe that violence threatened by government bureaucrats is a superior way to allocate the scarce means of production. They believe in power over voluntarism. They believe in the state over the free market. They believe in coercion over free choice.

I have dealt with these people for over 50 years. They do not change, because they really are power-lovers. They really do trust the state. They really do not trust the free market. They really do not trust customers. They really do not believe that individuals should be given the right to make their own decisions regarding whatever wealth they possess. They resent the fact that other individuals have the right to make their own decisions with their own money.

They literally cannot understand the logic of the free market, once they consider an invisible legal boundary known as a national border. Beyond this invisible line, they completely abandon everything they say they believe in regarding what takes place inside national borders. *For them, truth is determined by which side of an invisible line called the border you live on.*

E. Badges and Guns

I believe in free trade. That is because I believe that the same principles of private ownership and voluntary exchange which exist inside the borders of the United States—cities, counties, states—should also apply to voluntary exchange across the borders of the United States. I believe that UPS and FedEx should be permitted to perform the same services across all borders.

Mercantilists reject this outlook. They believe in guns and badges, and anybody who calls into question the wisdom of politicians and bureaucrats to organize production by means of badges and guns is unpatriotic.

The mercantilist says that he knows better than property owners do what is good for individuals and the nation. Maybe he admits that he personally does not know, but he is sure that Congress does and tenured bureaucrats do. He insists that Congress should pass laws that empower tenured bureaucrats to decide who should trade and on what terms across the nation's borders.

Do you believe in the economic wisdom of politicians and bureaucrats? Then you are a prime recruit for mercantilism. If you don't, then you aren't.

Anyone who promotes a tariff is a mercantilist unless he is also calling for the abolition of the federal income tax. Anyone who promotes quotas of

any kind is a mercantilist. He may deny this. He may not understand this. He probably cannot follow any argument based on voluntarism. He does not believe in voluntarism. He believes in the wisdom conveyed by badges and guns.

My advice: do not trust his judgment.

Conclusion

Free market capitalism transfers wealth to those producers who can serve customers best, as determined by customers. Mercantilists focus on the desires of domestic producers, not the desires of domestic customers. They want to protect domestic producers when foreign producers deliver better goods, as determined by domestic customers. They are always ready to use state violence to protect domestic producers. They have been crony capitalists for over 500 years.

4

FREE TRADE IN THE BIBLE

Nowhere in the Bible is there any discussion of restraints on trade across borders. Solomon built the temple with cedars imported from Lebanon (I Kings 5:6). But this tradition goes back to the story of the Israelites in the wilderness.

Then the Lord said to me, ‘You have been traveling around this mountain country long enough. Turn northward and command the people, “You are about to pass through the territory of your brothers, the people of Esau, who live in Seir; and they will be afraid of you. So be very careful. Do not contend with them, for I will not give you any of their land, no, not so much as for the sole of the foot to tread on, because I have given Mount Seir to Esau as a possession. You shall purchase food from them with money, that you may eat, and you shall also buy water from them with money, that you may drink” (Deuteronomy 2:2–6).

In Deuteronomy, Moses recounted the story of Israel’s 40 years in the wilderness. He told this to the generation that was about to conquer the land of Canaan. He was the last of the adults of the exodus generation. Moses said that God told the Israelites to buy meat and drink with money. They had been given money by the Egyptians. Israel had gained the inheritance of many of Egypt’s firstborn sons, who had all perished on Passover night. Israel had been capitalized by the Egyptians, who had illegally held them in bondage (Exodus 12:35–36). Even after the capital losses imposed by Moses after the golden calf incident (Exodus 32:20), Israelites still had money. Money is the most marketable commodity. It has the widest market of all commodities. Wherever men go, there are other men who want to exchange more specialized goods and services for money, the less specialized good. Money is the most marketable asset. This means that it can be exchanged for other valuable assets rapidly without advertising costs and with no discount.

Money is an ideal form of wealth for men on the move. It is readily transportable, easily divisible, and has a high value in relation to its volume and weight. Money was what Israel needed for a 40-year march through the wilderness. Had there been no other nations to trade with, money would have done them far less good, since men cannot eat money. But men can surely eat the food that money can buy, and there were many cultures along Israel's journey with one thing in common: a desire for more money.

Israel began its post-Egyptian existence as a trading nation on the move. Moses told them to trade with neighboring nations. He wanted free trade. That was best for the nation. It was also best for individual Israelites. This is why he did not impose tariffs or quotas. *Tariffs are sales taxes on imported goods.* Quotas are restrictions against imported goods. They raise no revenue. Tariffs and quotas are laws in restraint of trade. They are laws limiting the use of private property. A tariff is a way to collect taxes without investigating people's income. If tariffs are low, then they produce some revenue. Quotas are outright restrictions.

Tariffs and quotas are state subsidies to a few domestic producers. They reduce foreign competition. Some domestic companies can then raise their prices. But an important but rarely understood effect of tariffs and quotas is to reduce exports. If foreigners cannot gain ownership of a nation's money by exporting goods to that nation, then they cannot import goods from that nation. They do not have the foreign nation's money. Why not? No trade. Trade is a two-way street. Both sides benefit.

There is something else. If foreigners cannot gain access to a foreign nation's money, they cannot invest in that nation. There are businessmen who would like more capital. They don't care who provides it if the cost is low. They would like foreign investors, but there aren't any. By the way, this also applies to national governments who want to sell bonds to foreigners. How can foreigners get the money to buy the bonds? By exporting more goods than they import.

Because the Israelites had money, they could trade with those foreigners along the way who had meat and drink for sale. In the wilderness, meat and drink were in short supply. The Israelites possessed money, but they could not eat their money. On the other hand, the nations they passed by had meat and drink. Pre-exodus Egypt had been the richest kingdom in the region around Sinai. Now the Israelites possessed much of the transportable wealth of Egypt. A series of mutually profitable exchanges became possible.

The nations had what Israelites wanted, and vice versa.

The Israelites possessed an advantage: the nations were afraid of them (Deuteronomy 2:4). Israel had just defeated Egypt. They had crossed the Red Sea miraculously. This was a demonstration of supernatural power that threw fear into the hearts of the Edomites. But God warned Israel not to use force to extract wealth from Edom. He told them to be peaceable people, for other nations lawfully possessed their own inheritances. There were legal boundaries around their possessions.

This made foreign trade a major source of increased wealth for the Israelites. Israelites would give up money, which was of low value to them, in exchange for meat and drink. Giving up money for consumer goods meant the decapitalization of Israel's distant future. But men live in the present; they must eat and drink in the present. God allowed them to make the decision: money as part of the inheritance for the next generation vs. meat and drink in the present.

Money was less valuable to the exodus generation than meat and wine. Meat and wine were less valuable to some Edomites than money. *Because each participant in an exchange values what the other has more than what he has, both of them can increase their satisfaction by a voluntary exchange.* God told Moses to instruct the nation that from now until the military conquest of Canaan, voluntary exchange would be the only lawful avenue of their wealth-generating activities with other societies. They had to learn to prosper through peaceful exchange. Violence should not become a means of increasing the nation's wealth.

This command established a pattern for post-conquest relations with the nations around Israel. Israel restrained itself when it possessed what appeared to be a military advantage. Israel would not have retained an advantage, had they violated the boundaries that God had placed around the nations, but the nations did not know this. Israelites had to rely on trade to get what they wanted. This must have made an impression on the nations in the region. If anyone wanted access to wealth inside Israel, he could gain it by offering an Israelite an advantage. The Israelites were ready to trade. They were not in the empirebuilding business. They were in the "let's make a deal" business.

This forced wealth-seeking Israelites to become skilled bargainers. They could not rely on military force to gain what they wanted. They had to learn self-restraint. Weak nations must do this of necessity. Strong nations are wise to do this.

After the conquest of Canaan, Israel allowed foreigners to live inside her borders. The rule of law did not discriminate against foreigners who lived inside non-Levitical walled cities. They could buy and sell homes and leave an inheritance to their children (Leviticus 25:29–30). Furthermore, one law governed all traders (Exodus 12:49). This was unheard of in the ancient Near East. In all other societies, the cities' gods were local. If you did not have legal access to the religious rites of these local gods, you had no legal standing. These rites excluded foreigners and women. But Israel's God was a cosmic God. His transcendent authority was not dependent on geography. So, Israel became a place where all people could seek freedom from arbitrary civil government and gain legal protection for their property.

This was supposed to set the pattern for Israel's future economic dealings with foreign nations. Without the threat of violence facing them, other nations would come to regard Israel as a place to do business. If they wanted to benefit from Israel's productivity, they could bargain with Israelites. Without fear of confiscation, they could bring something valuable into Israel in search of a trading partner. Their property would be protected by Israelite law and custom. This safe haven for private property irrespective of national origin would make Israel a crossroads for profit-seeking foreign traders. Egyptians could seek out Israelites or Babylonians or Hittites to do business. Israel could become one of the neutral, independent, coastal nations that served the great empires as common centers of trade.

God would soon give Israel the geographical location that could make the nation a foreign trade center. But first, He imposed a law that favored foreign nations: the protection of their property. By honoring this law prior to the conquest of Canaan, Israel would mark itself as a nation where private property was safe. *Israel would become known as a trading nation rather than an aggressor nation. This reputation would position Israel as a regional trade center, bringing income from foreign traders seeking opportunities.* This was part of God's program of foreign missions through law: "Keep therefore and do them; for this is your wisdom and your understanding in the sight of the nations, which shall hear all these statutes, and say, Surely this great nation is a wise and understanding people. For what nation is there so great, who hath God so nigh unto them, as the LORD our God is in all things that we call upon him for? And what nation is there so great, that hath statutes and judgments so righteous as all this law, which I set before you this day?" (Deuteronomy 4:6–8).

A. Buyer

A buyer in a free trade nation has a wide variety of goods and services. Anyone from around the world can export goods to that nation. Digital services are also possible to sell across borders. The more choices he has, the freer he is. The more choices he has, the richer he is. This is a crucial link between liberty and wealth. The link is judicial: free trade.

A buyer may choose to buy a product manufactured locally in the same town. He is more likely to purchase services produced locally. The local community probably does not produce the brand of car that a buyer wants, or the brands of appliances. The wider the range of choices he has, the more likely that he will be able to purchase a manufactured good that was produced far away. (Note: 3D printing may change this some day.)

A tariff or a quota reduces his range of choice. A tariff may buy him some protection from violence if the government spends this tax money on law-enforcement. But it will spend most of it on other government services: politically popular programs. The buyer's loss of choice is probably more valuable to him than the tiny portion of government benefits attributed to his tariff payment.

Then there is the buyer on the other side of the border. He would like to have sellers from the tariff-blocked nation make offers to him. If he could get his hands on the currency of the tariff-blocked nation, he might buy something. But because sellers in his nation could not sell exports across the border, they earned no foreign currency to sell to buyers. So, buyers on both sides of the border are poorer: fewer choices.

B. Seller

Sellers of goods that can be produced less expensively abroad do not face as much competition as a direct result of a tariff or quota. They are subsidized by these restrictions on trade. So are their employees, who are not paid much. The investors/owners are the main beneficiaries.

But there are other sellers who are harmed: domestic exporters. Exporters need to have buyers on the other side of the border. These buyers have to own the currency of the exporters' nation. Where will these buyers get access to this currency? Simple: by purchasing excess currency owned by exporters in their nation. But when tariffs and quotas block foreign exporters from making mutually agreeable trades with buyers in the exporters' nation, domestic exporters face a restricted foreign market. This is rarely discussed

in media accounts of trade restrictions. The domestic sellers talk about all the jobs that are being saved by tariffs and quotas. They never mention the jobs that are being lost in the export sector of their nation's economy.

Domestic sellers of goods and services other than the tariff-protected goods also are harmed. If buyers could purchase what they want less expensively from importers, they would have more money to spend on other items for sale. But, because they had to pay high prices for the protected goods, they cannot spend this money. Employees of the protected firms have extra money, but investors/owners got the lion's share. They buy luxury goods and services. The companies that would have sold to middleclass buyers do not make these sales.

My point is this: *there are winners and losers in a tariff-protected nation*. The protected producers are visible to the public. The victims of the trade restrictions are unknown to the public. The public cannot follow detailed chains of logic, such as what you have just read.

Conclusion

Tariffs and quotas are restraints on trade. They limit liberty. They reduce per capita wealth by restricting buyers' choices. Yet millions of voters who are also buyers favor tariffs. This includes voters who claim to believe in the free market. They refuse to call tariffs what they are: sales taxes on imported goods. The voters claim to believe in lower taxes. But in fact they are in favor of high taxes in this one area: sales taxes on imports. They believe that higher taxes on imports will strengthen the economy. They say they repudiate Keynesian economics, with its call for higher deficits to stimulate the economy. Yet they hold to the same view. So did Keynes. When he became a Keynesian in the Great Depression, he switched from being a free trader to being a protectionist. This was what we call today managed trade. He abandoned his earlier belief that a free market could allocate trade across borders. But he was consistent. He also argued that the free market could not allocate trade domestically. The government had to step in and manage capital.

Tariffs are unfair taxes. They violate the rule of law. If there were a fixed tax rate on all goods and services, then it would be fair. It would harm all sellers equally. But no nation imposes such a tax system. Politicians impose different rates on different goods. They respond to pressures from big business donors. If every importer paid the same percentage, there would be greater political resistance to high tariffs. But, because there are different

rates for different goods, political resistance is dispersed, while lobbying is intense. The result is an economically incoherent tax system. It is a concealed tax system. Voters are never told by pro-tariff lobbyists that a tariff is a sales tax. The voters cannot follow the logic of economics. They respond to slogans: "Tariffs protect American workers." They never ask: "Which American workers? How many are protected? For how long? At whose expense?" *At the customers' expense.* That is the famous bottom line.

5

STATIST PROPOSITIONS OF PROTECTIONISM

*Where there is free trade, foreign competition would even in the short run frustrate the aims sought by the various measures of government intervention with domestic business. When the domestic market is not to some extent insulated from foreign markets, there can be no question of government control. The further a nation goes on the road toward public regulation and regimentation, the more it is pushed toward economic isolation. International division of labor becomes suspect because it hinders the full use of national sovereignty. The trend toward autarky is essentially a trend of domestic economic policies; it is the outcome of the endeavor to make the state paramount in economic matters. – Ludwig von Mises, **Omnipotent Government** (1944), p. 4.*

Free trade is a crucial economic policy in the program to restrict the growth of socialism. Mises never wavered from this view. He recognized the threat of all arguments for protectionism: they help to expand the power of the state. They move in the direction of central economic planning.

I have known ever since 1960 that the central dividing issue economically in the conservative movement is the issue of protectionism. People who believe that they are defenders of the principle of free enterprise at some point face a moment of truth. They have to decide whether they are in favor of tariffs or free trade. They have to face the reality of the arguments in favor of free enterprise. Do they believe in free enterprise, or do they believe in the mixed economy of the modern welfare state?

In this book, I have used the metaphors of badges and guns, and I have spoken of invisible lines known as borders. I have been attempting to get you to think carefully about the underlying economic principles of free enterprise. I am asking you to think through the presuppositions and implications of your views regarding the way the economy really works and the way the economy ought to work.

A. Methodological Collectivism

The difference between the statist and the free-market economist has to do with methodology. The statist begins his discussion of the economy from the perspective of the collective enterprise known as civil government. He equates the state (the monopoly power of coercion) and society (voluntary institutions). He also identifies the state with the nation. He sees the state as the agency that alone legally represents the nation. In some cases, he actually believes that the state is the same as the nation. Rousseau is the best example. He argued for the existence of the General Will—collective humanity, but stripped of intermediate loyalties and bonds—which is represented by the state.

There is no doubt that there is a legal entity called the United States government. It is a judicial construct. It is marked by its proponents' assertion that it has final jurisdiction over the use of badges and guns inside its borders. It has a monopoly of violence that cannot legally be challenged by any other entity. It has the final say over who gets to point a gun at whose belly.

If we do not think of the state in this way, we will not understand what the state really is: *legalized coercion*. The state is the agency that asserts and enforces its right to stick guns in people's bellies. There is a great debate over the legal and moral foundations that undergird this judicial assertion, but the right of lawfully holding a gun and sticking it in somebody else's belly is the essence of the state.

The case for free trade is based on an assumption: an individual has the legal and moral authority to make an offer to somebody else to buy what he owns. It is *the legal right to make a bid*. There are many ways to defend the free-market economy, including its efficiency, but the starting place, according to libertarian theory, and also Christian economics, is the moral and legal right possessed by an individual to own property, which implies the right of an individual to *disown* property. It is *ownership and disownership* that serve as the foundation of free-market economic theory.

The collectivist begins with the concept of the state as the final authority. Libertarian theory begins with the concept of the individual as the final authority.

In my view of economics, I begin with God as the final authority, but as I have spent the last 45 years attempting to show, the God of the Bible is overwhelmingly the defender of private property rights. This is encapsulat-

ed in the commandment: "Thou shalt not steal" (Exodus 20:15) I keep contrasting this concept with the assertion of all modern welfarestate economists: "Thou shalt not steal, except by majority vote."

B. Adam Smith

Adam Smith is correctly regarded as the most successful defender in history of the idea of free trade. This is one of the reasons why, in the view of those who believe in free trade, his acceptance of the job as the senior collector of customs (tariffs) in Kircaldy is one of those classic ironies in history. Adam Smith sold out his economic principles for the sake of high income.

Murray Rothbard has exposed what we can legitimately call the myth of Adam Smith. Smith was not the greatest defender of free markets, nor was he anywhere near the greatest defender of economic theory. But he was unquestionably the most famous and most influential early defender of free trade and free markets. As a publicist, he was the master. Why this should be true, I do not understand. His book, *The Wealth of Nations*, is a bloated book, and rare is the person who sustains the exercise of beginning on page 1 and finishing the book.

Smith did make one claim that, in his day, was the most important claim that he made. It laid the foundation of modern economic theory. He claimed that the free market system is autonomous. It would exist apart from legislation by the state. He called this "the system of natural liberty." He described how the free market would work if the state did not intervene to pass special-interest legislation that benefited one group or another. What Rousseau claimed for the General Will, Smith claimed for the free market. But Rousseau's General Will needed a representative institution to express itself: the state. Smith's theory of the free market was its own interpreter.

The system of natural liberty would maximize the wealth of nations, he said, but far more important, it would maximize the wealth of individuals. The central idea of Adam Smith's book is this argument: the pursuit of individual self-interest, when pursued by all the residents of the nation, will result in an increase of the wealth of the nation. His link between the pursuit of *individual self-interest* and the maximization of *the wealth of their nation* is the essence of Smith's logic, and it is also the essence of the argument of most free enterprisers.

This is surely the single most important idea that socialists always reject. The essence of the socialist outlook is this: *individual self-interest can-*

not be trusted, because it leads to exploitation of the weak. In order to defend the weak, the socialist claims that the civil government must interfere with private property rights, and it must plan society from the point of view of the nation as a whole, or the people as a whole, or the vanguard of the proletariat, or whatever group is identified as representing the best interests of the nation.

The socialist wants to capitalize the word “nation.” The Nation is his starting point, and it is also his ethical end. He equates the state with the nation, and he insists that the proper way to look at the economy is to see it as an extension of the state, which somehow incorporates the nation.

C. Mercantilist Wolves in Sheep’s Clothing

Free enterprisers say that they reject this outlook. So do most political conservatives. They say that they do not believe that the state is the same as the nation. The problem is, most of them still operate in terms of the collective entity known as the nation. They still cling to the idea of the nation-state as the final source of guidance for the economy.

This outlook in the West has been associated with mercantilism. Mercantilism is the system in which politicians gain control over the state, and then use the state to grant monopolies of trade to special-interest groups. It was against this outlook that Adam Smith wrote his book.

To the extent that people say they believe in Adam Smith’s concept of the free market, they ought to oppose mercantilism. The problem is this: the mercantilist mentality is best represented in the defense of tariffs. Tariffs are sales taxes imposed on imports of foreign-made goods. Yet most people who insist that they are defenders of the free market, meaning defenders of Adam Smith’s economics, are overwhelmingly in favor of tariffs. They think they are free marketers, but they are mercantilists. They think they are defenders of private property, when they are in fact defenders of the welfare state.

The reason why conservatives say they oppose the welfare state is that the state interferes with the free market. But when you press them to defend the free market, and ask them to oppose all tariffs except as revenue-generating devices, they refuse to do this. They insist that the tariff system is necessary to defend the free market from failure. What failure? Allowing unfair competition from across the invisible line: the national border.

Then, when you show them that Adam Smith’s logic was applied against tariffs and mercantilism, they may backtrack from his view. They may say

that the benefit of the tariff system is to make the nation wealthier. Once again, the anti-mercantilist points out that this idea of wealth through sales taxes on imports was the essence of mercantilism.

Then the defender of tariffs says his critics are anti-patriotic and want to destroy the high incomes of American workers. They want to destroy the jobs of high-paid Americans. They want to reduce Americans to the economic level of Third World peasants.

This is mercantilism. It has always been mercantilism. It is statism. It is welfare statism. It is a gun in your belly in order to benefit the income of a minority group that wants to extract wealth on the basis of violence. This is the essence of the welfare state. This is “thou shalt not steal, except by majority vote.”

Protectionists find economic arguments to justify tariffs. They also seek an ethical defense of this position. So, they insist that the state’s authorized agents should have the right to stick a gun in your belly and collect a sales tax in the name of the People.

Their concept of the People is inherently collectivist. They see the People as best represented by the state. They see the state as having an obligation to impose sales taxes on imports in order to benefit inefficient producers of goods that most customers do not want to buy at the prices asked by the sellers.

D. Convenient Arguments

The mercantilist will adopt any argument at hand to defend himself. Here are a few of them:

- The nation has the obligation to protect its people against [terrifyingly efficient] slave laborers.
- The nation has the obligation to protect its producers against export subsidies, just like the ones our government provides, by foreign nations.
- The nation has the obligation to defend itself against goods produced in nations that do not have higher environmental standards than ours are.
- The nation has the obligation to defend itself against economic warfare by other states.

- The nation [not the military] has the obligation to protect industries that might be needed in a war against an exporting nation.
- The nation has the obligation to. . .

Hold it! I have some questions.

- What do you mean, “the nation”? What is this nation?
- How does special-interest legislation favoring a handful of domestic manufacturers defend the vaguely defined entity called the nation?
- How is it that the interests of a handful of manufacturers that cannot persuade customers to buy from them, for whatever reason, are the best interests of the nation?
- Why is it that the interests of this collective entity known as the nation are best understood by a group of politicians who have the support of a small minority of manufacturers who are in direct competition with manufacturers outside the country? We are not talking about most manufacturers. As recently as 1970, only about 5% of the United States gross domestic product was a result of international trade. Today, it is closer to 25%, but any way that you define it, the vast majority of Americans do not work for companies that are in direct competition with foreign manufacturers.
- How is it that the relatively few special-interest groups that are in competition with foreign manufacturers possess a special position as representatives of the collective entity known as the nation, despite the obvious fact that the vast majority of people who live in the nation do not work for these companies, invest in these companies, own these companies, or even know the names of these companies? Who has designated them as the representatives of the people? Politicians, of course.
- What is it about special-interest legislation in the name of the nation that persuades people who say they believe in the free market to rally behind the programs recommended by these

special-interest groups, namely, the imposition of sales taxes on imported goods, in order to hike the price of those goods, in order to force customers inside the nation to buy from these inefficient producers, who could not otherwise persuade customers to buy from them?

E. Bait and Switch

Bait and switch is a sales technique to get people into a store. The store advertises a product at a low price. When buyers come to buy it, the store is always out of that item. The salesmen then try to sell a more expensive item. This is fraudulent. It is illegal in the United States.

There is a true bait-and-switch operation going on here. Defenders of tariffs present themselves as defenders of the nation, when in fact the nation, from the point of view of economics, is not a collective entity. The nation, from an economic standpoint, is simply a convenient name that we give to people living inside invisible judicial lines known as national borders. These people own property, and they make bids to buy other people's property. The defender of sales taxes comes in the name of the nation, and claims that the nation's real economic needs are best obtained by imposing sales taxes on imported goods. But the whole idea of the nation, from an economic standpoint, rests on the concept of the right of private property and exchange. How is it that anyone speaks for this nation—someone who wants to impose the threat of violence in order to keep property owners from using their property as they see fit?

The defender of tariffs is a collectivist. There is no escape from this. He is a collectivist because he wants to use the state's power of coercion to interfere with the decisions of property owners. He does so in the name of a supreme entity: the nation. The nation is sovereign. The nation exists, economically speaking, as an entity above and beyond the outcomes of a series of exchanges. The defender of tariffs begins with the concept of the supreme sovereignty in economics of a collective entity: the nation.

Protectionism is a bait-and-switch operation. The defender of tariffs says he believes in the free market, but he begins with a mercantilistic concept of the nation. He begins, not with the concept of private ownership, but with the sovereignty of the state over the terms of exchange. He does not begin with the individual, as Adam Smith did. He begins with the concept

of the state and nation that Adam Smith opposed in his book.

In what way does the protectionist hoodwink the voters? By coming to the voters in the name of the nation, when he in fact is an advocate for inefficient, uncompetitive manufacturers who cannot persuade customers to buy their goods.

A few of these advocates are actually on the payrolls of trade groups whose members cannot compete, and who therefore seek favors from the government. But most of them are simply self-deluded individuals who never understood what mercantilism was, and who never understood the arguments that Adam Smith presented against mercantilism. They have not learned after almost 270 years of economic writing that intervention by the state *reduces* the wealth of those customers who are no longer allowed to buy the goods that they want to buy.

The mercantilist looks at these excluded customers, and he thinks this: "They do not count." Really, he is thinking this: "They should not count, but they do, so we have to cut them off at the border." The fact of the matter is this: *customers are a majority of people inside the nation*, and if this were not true, there would be no need to impose sales taxes on imported goods in order to reduce trade. The only reason why the sales taxes are imposed, other than to collect revenue, is because the special-interest groups that are unable to compete profitably in the free market are well aware of the fact that *most customers do not want to buy what they want to sell on the terms that they want to sell it*. The special-interest groups need tariffs because they do not represent the nation.

Protectionists insist that they are acting on behalf of the nation. They do not respond to the arguments of defenders of the free market, who argue that individuals should be left alone to make whatever exchanges they want. The free market's defender denies that there is any collective entity called the nation that in some way best represents people who make voluntary exchanges that do not threaten all citizens. The defender of the free market begins with the right to private property. The defender of protectionism begins with a collective entity which supposedly represents the people, and which passes special-interest legislation against private individuals who want to make purchases. How is it that the best interests of the nation are best represented by special-interest groups that cannot compete?

How is it that people who claim to be free market advocates, and who even claim to be libertarians, join with the special-interest groups to per-

suade Congress to pass sales taxes on imported goods? How is it that all of this is done in the name of the free market, when it is clearly a form of mercantilism, which was the target of Adam Smith's critique in 1776? How is it that modern mercantilists have deluded themselves to such an extent that they deny that they are mercantilists, and insist they are defenders of the free market, when in fact they hold the position that Adam Smith rejected? (As for someone who argues this way in the name of Austrian School economics, my mind boggles.)

This is intellectual schizophrenia. These people do not know how to think straight. They start their analysis—such as it is—with a collective entity known as the nation, yet they think of themselves as defenders of the free market. But the logic of free-market economics does not rest on the collective entity known as a nation.

F. Propositions of Protectionism

The entire concept of protectionism depends on a series of propositions, none of which is true, and which few if any protectionists are willing to defend in a clear and forthright manner. These false propositions include the following:

- The nation is best represented by the nation-state.
- The right of private property is not the foundation of the free market.
- The supreme sovereignty of the state is the foundation of the free market.
- Special-interest groups that cannot compete effectively understand the needs of the vast majority of citizens far better than property owners do.
- Special-interest groups that pay off politicians to vote for tariffs are acting on behalf of the nation.
- Politicians best understand the needs of the vast majority of citizens.
- There is some way for a politician to assess accurately the costs and benefits of voluntary exchange.
- Politicians can add up the national benefits and add up the

costs, and then will usually vote in favor of whatever maximizes the net national benefits.

- Politicians are not self-interested at the expense of a majority of property owners.
- The opinions of customers who want to buy from foreigners should be ignored.
- Badges plus guns plus sales taxes increase the wealth of nations.

Protectionists never start their analysis with acting individuals. They always start with the collective entity known as the state. They insist that the collective entity known as the state best represents the interest of the collective entity known as the nation. This idea goes back to Plato, but it was most powerfully argued by Rousseau.

They never define what the nation is, and they never show how special-interest legislation on behalf of inefficient manufacturers increases the wealth of a nation.

Millions of conservatives who insist that Congress is not to be trusted to assess the economy domestically also maintain this exception: Congress's collective ability to impose sales taxes on imports. Here, they say, voters can and should trust Congress.

Here is the assumption of all defenders of tariffs as protection. The pursuit of profit by self-interested individuals leads to national poverty when they pursue their self-interest across a national border. Inside the borders, Adam Smith's logic is sound, they say. The pursuit of self-interest does increase the wealth of nations. But this principle does not apply across national borders, they say

Smith argued for the extension of the logic of his system of natural liberty across all borders. Protectionists, in his day and now, refuse to accept this. They say that his logic stops at a national border.

Conclusion

I do not expect to change the mind of any protectionist. But I would like those people who are the targets of protectionists' taxation program to recognize that the person making the argument for sales taxes on imports is a mercantilist and a welfare statist.

The protectionist will not admit this to himself, and he surely will not admit it to anyone considering his arguments. He will staunchly deny that he is a mercantilist or a welfare statist, but his arguments are those of mercantilism and welfare state economics, so his denials should not be taken seriously.

I want protectionists to come clean. I want them to admit that they are defending mercantilism and therefore defending the welfare state. I want them to admit that they do not believe in the right of property owners to make voluntary exchanges across national borders without paying a sales tax. I want them to fess up to the fact that they believe in this formula: *badges plus guns plus sales taxes increase the wealth of nations*.

The protectionists often include this sentence in their responses: "But what about . . . ?" Here is my answer: "Put away your badge, put your gun in your holster, and stop trying to tax me." Or, more philosophically: "You do not speak for the nation." Or, more personally: "Stop acting as a shill for a small group of businesses that can't meet the standards imposed by customers."

6

HAMILTONIAN ECONOMICS

The most influential supporter of tariffs in American history was Alexander Hamilton.

Alexander Hamilton was also a crusader for higher taxes and a larger national government in the 1790s. He wanted higher taxes in order to raise money for a higher federal debt. He wanted higher federal debt because he wanted investors in government IOUs to commit to the survival of the United States. Free market economist Thomas DiLorenzo has summarized Hamilton's position, which he accurately identifies as crony capitalism.

In a lengthy "report" to Congress on the topic of the public debt Hamilton said that "a national debt, if it is not excessive, will be to us a public blessing." He would spend the rest of his life politicking for excessive government spending—and debt. The reason Hamilton gave for favoring a large public debt was not to finance any particular project, or to stabilize financial markets, but to combine the interests of the affluent people of the country—particularly business people—to the government. As the owners of government bonds, he reasoned, they would forever support his agenda of higher taxes and bigger government. (He condemned Jefferson's first inaugural address and its minimal government message as "the symptom of a pygmy mind.") No wonder one historian entitled his book on Hamilton "American Machiavelli."

In 1791, he persuaded George Washington and then Congress to transfer to a group of private investors the right to set up a central bank that was not answerable to Congress or anyone else in government. The Bank of the United States had the right to create fiat money out of nothing, lend it to the government, and keep the interest paid by the government. This was the supreme institution of crony capitalism in America from 1791 to its expiration in 1811.

He was also a big supporter of tariffs. Tariffs raised the money the government needed to pay interest to the Bank of the United States, which was independent of the government of the United States. Tariffs were taxes favored by big-government conservatives. They still are.

A. Sales Taxes on Imports

The Constitution authorizes tariffs. Why? Because the central government in 1788 was not allowed to tax states or individuals directly. So, the Framers gave it the power to tax imports. As a way to keep the U.S. government out of most citizens' lives and pocketbooks, tariffs made sense. They were a way to limit the central government.

But Hamilton did not view tariffs as a way to keep the federal government small. He wanted it big.

He also wanted high tariffs against imported goods as tools to subsidize his political allies: crony capitalists.

Tariffs are sales taxes on imported goods. He saw that higher sales taxes on imported goods would subsidize American firms. How? By restricting foreigners from using lower prices to compete against domestic manufacturers.

He wanted to reduce the degree of choices available to American customers. He wanted to subsidize American manufacturers by letting them charge higher prices than foreign producers would have charged, had there been no sales tax on imports.

Hamilton was the early Republic's supreme philosopher of crony capitalism. His intellectual heirs are defenders of this strategy. This is why Hamilton is a favorite of both the Right and the Left. Biographies of Hamilton sell very well. He articulated our era's version of capitalism: the bastard child of the Keynesian interventionist state. (Hamilton was the most influential bastard in American history.) Keynesianism is a philosophy of creative government spending and endless government debt. So is Hamiltonianism.

Making a nation richer by taxing customers more than before is a strange idea: "Tax and grow rich." It sounds like Keynesianism because it is Keynesianism.

Passing a law against people who want to get together to make a voluntary exchange of assets is a restraint on trade. Why does a nation get richer by restricting trade? How is it that sending a man with a badge and

a gun to keep people from doing what they want to do to improve themselves increases a nation's wealth? Isn't the idea of greater wealth the idea of greater opportunities to buy more things than before? Then how are people made richer by deliberately restricting the number of things they are allowed to buy?

Hamilton's intellectual heirs deny that greater wealth for Americans is based on greater freedom of trade. They implicitly argue the opposite: "Reduced opportunities are the basis of wealth. The fewer opportunities you have to trade, the richer you are."

If this sounds crazy, that is because it is crazy. But it is widely believed, especially by conservatives who swear they are anti-Keynesian defenders of limited government.

They also argue that the more sales taxes on imports that the federal government collects, the richer America is.

Again, you may think that sounds like Keynesianism. It is Keynesianism. It is crony Keynesianism.

B. Logic Doesn't Count

The amazing thing about Hamiltonians is that they are impervious to economic logic. They argue that raising taxes is bad, except for the sales taxes called tariffs. Then they switch sides. They join the ranks of the tax collectors, the bureaucrats, and the people with badges and guns who say that higher taxes and reduced choices make America rich.

They love badges and guns. They are convinced that badges and guns are the basis of economic growth and wealth for all. They really believe that if the government sends out enough people with badges and guns, extracting sales taxes from buyers of foreign goods, the nation will be stronger, richer, and freer.

Of course, they want only "good" taxes. They want taxes of a special kind. They don't promote increased taxation in general.

No one supports increased taxes in general.

The Left wants taxes on the rich for the sake of the poor. Hamiltonians want taxes on customers for the sake of crony capitalists and their employees.

The Left wants taxes on the rich in the name of fairness. Hamiltonians want taxes on the middle class in the name of national prosperity.

Both groups are committed to badges and guns.

C. Fighting Tyranny With Tyranny

In 2020, I received an email from a committed Hamiltonian. He took exception to my assertion that reduced sales taxes would increase most people's wealth. He argued as follows.

It seems to me that you do not take account of "nationalism," or nationhood. It is not that our manufacturers are less efficient than foreign manufacturers because of anything they, themselves, do. The reality is that our government imposes the causes of their "inefficiency" upon them. Therefore, to make things equal, our government ought to remove those artificial burdens,... either that or impose a tariff equal to those burdens in order to offset them.

Let me summarize this argument. (1) American manufacturers are not inefficient. (2) They are hampered by our government. (3) Therefore, we need a larger, more intrusive government to get our government off the backs of manufacturers.

He is a Hamiltonian. As with all Hamiltonians, he cannot think straight. He has adopted the idea that by making the federal government stronger, voters can overcome the effects of a much too strong federal government. He defends this in the name of nationalism or nationhood.

I will now give you a test. See if you are a Hamiltonian. If you cannot follow this argument, you are a Hamiltonian.

D. This Side and That Side

You live on one side of the street. Across the street is Jones. Jones wants to sell you an item that you want to buy.

Smith, your next door neighbor, also sells an item like the one Jones sells. But his item is priced 20% higher.

He comes to you and tells you that, for the sake of This Sideism, or This Sidehood, we must impose a sales tax of 25% on Jones' item. After all, we don't want to lose the wealth on This Side of the street. Without a sales tax, That Side will extend its grasping hand into This Side.

You reject his suggestion as nonsense. You like Jones' product. It's sleek. It's cheap. It's a deal. "Butt out, Smith." (Every time you buy anything, you are telling every other seller to butt out.)

Smith, seeing that you are hopeless, approaches Brown, your other next-door neighbor, and warns him about the terrible threat posed by That Side to the way of life Over Here. He does not mention you, of course. He is only defending This Side in the name of truth, justice, and the This Side way.

He also goes two houses down and makes the same pitch to Green. He suggests that Green and Brown join him in passing a law imposing a 25% sales tax on Jones' product. If this law is passed, he promises, This Side will be richer. This Side will be stronger. This Side will be able to defend liberty.

They do it. Then they deputize a guy named Morton to enforce the new law. Morton now has a badge. He now has a gun. He comes to you and warns you that if you buy Jones' item without paying a 25% sales tax to This Side, he will fine you a lot more than 25%. He defends This Side with great enthusiasm, since the alternative to this job is the private sector. He has never done well in the private sector—a trait he shares with Smith.

Brown will now buy from Smith. Green will now buy from Smith. And Morton, who has not had full-time employment in years, is happy to buy from Smith.

How is This Side richer?

Why does the phrase "This Sideism" make you richer? How does the phrase "This Sidehood" make you richer?

What does the invisible line separating This Side from That Side have to do with anything, economically speaking?

It has a lot to do with economics if you are a Hamiltonian. It is an opportunity to subsidize crony capitalism.

E. Hamiltonians Protest

"See here," the Hamiltonian says. "You are trying to ridicule me with all this talk about This Side and That Side."

To which I say, "I am ridiculing the logic of your position. You think that an invisible line down the middle of the street is economically relevant. I don't."

He responds: "I am not saying that the line down the middle of the street is economically relevant."

I respond: "You are saying that the invisible line down the middle of the Rio Grande River is economically relevant."

He says, "But that line is economically relevant."

I ask: "Why?"

He answers: "Because the people on the other side of that line are supposed to stay on their side of the line."

"OK," I reply. "What if I hire a middleman—called UPS [United Parcel Service]—and he goes across the river and brings some item back to me that I pay for? The guy on the other side of the invisible line stays on his side of the line."

"No, no, no," says the Hamiltonian. "That invisible line is different. It defends Nationhood."

I ask: "What is Nationhood?"

He responds: "This Side—big time."

So, we are arguing about the length of the line and the latitude of the line. But what does the length of the line or the latitude of the line have to do with whether I should pay a sales tax?

The Hamiltonian says: "I don't understand what you're getting at. You offer a lot of incomprehensible theory, while I am trying to defend Nationhood."

Hamiltonians capitalize a word and think that they have offered a logical economic argument: "Nationhood." But when I capitalize two words—This Sidehood—the Hamiltonian thinks I am trying to confuse him.

Hamiltonians are easily confused.

F. Making Us Poor

My correspondent was not content to invoke nationhood. He went in for the kill. He invoked the ancient Hamiltonian argument: "Free choice impoverishes us; sales taxes make us wealthy."

Of course, they never use the term "free choice." That would reveal their real target to stamp out. So, they use the term "free trade." He wrote: "'Free trade' has the long term effect of lowering our standard of living until it is eventually equal to everyone else's. Wouldn't it be a worthwhile national goal to maintain a high standard of living for our own people for as long as we can?"

He is Smith. He looks across the street and sees Jones. He shudders. He goes to Brown and says this: "'Free trade' has the long term effect of lowering our standard of living until it is eventually equal to everyone else's. Wouldn't it be a worthwhile thissideofthestreet goal to maintain a high standard of living for our own people for as long as we can?"

Brown is not sure. He looks at Jones and thinks, "I don't care whether

Jones is rich or poor. I sure would like one of those items. The price is right.” So, Smith presses the point.

“Jones exploits the poor. Workers on That Side are slaves. They cannot find work at decent wages. That’s why Jones sells his goods so cheaply. You don’t want to wind up like all those exploited workers, do you?”

Brown thinks about this line of reasoning. He comes up with an idea. “We ought to give all those enslaved workers a chance at a better life. Jones needs some competition. Why don’t we invest some money in one of Jones’ competitors? That way, the competitor can offer better wages.”

Smith is horrified at this prospect. He has enough problems just dealing with Jones. “No, no, no. That would let all those workers get a faint glimpse of a better life. That would make their lives even worse: the disappointment. They are not ready for wage increases. They need more time. The best thing that we can do is not to become like them. We need to close the border to all goods produced by slaves. Our job is not to reduce slavery on That Side. It’s to preserve liberty on This Side.”

Brown thinks about this. “How do you define liberty?” Smith replies: “Liberty is the right of every man on This Side to join with his fellow man and vote to increase sales taxes on goods produced on That Side. That is the only way we can continue to be prosperous.”

Brown thinks about this. “Then the best way to preserve our wealth is to limit our choices.” Smith says that it is.

Brown pursues this line of thought. “Then the path to liberty is reduced choice.” Smith assures him that it is.

“So,” Brown says, “the best way not to become slaves with few choices is to legislate fewer choices.”

Smith has serious problems with following logical arguments, but he senses where this is headed, although he can’t quite put his finger on it. He senses that he does not want to go there. So, he switches his line of reasoning. “You must defend your income as a worker.”

Brown says: “By restricting my choice as a customer.”

Smith says: “That’s it, exactly. And you must also limit everyone else’s choice as a customer.”

Brown says: “Then the best way to maintain my income as a producer is to reduce the number of sales that people on That Side can make to me, and also to reduce the number of sales that I can make to people on That Side.”

Smith replies: "Don't worry about lost sales on That Side. They're all a bunch of slaves."

Brown asks: "Why is that?"

Smith has the right answer: "Because they spend their lives being told what to do by people with badges and guns."

Conclusion

Did you follow my argument? If so, you are probably not a Hamiltonian.

Do you believe my argument? If so, then you are definitely not a Hamiltonian.

Hamiltonians do not like economic arguments that are clear. They regard clear arguments as tricks. They think that any argument that progresses step by step to a conclusion is inherently untrustworthy.

They prefer to capitalize words, and then call for higher sales taxes in the name of defending the newly capitalized words. The words all boil down to these: "This Sideism," "This Sidehood," and "That Side." They fear that trading with people on That Side will impoverish us.

A Hamiltonian believes that if someone in China discovered a cure for cancer, the only way to protect America from unfair competition and inevitable poverty would be to impose at least a 50% sales tax on it. "We need to give Americans a fighting chance," he says. Not American buyers of cancer cures, of course. Sellers.

If you think this sounds silly, you are not a Hamiltonian. You do not think that badges and guns and sales taxes on imports make most people richer on either This Side or That Side of the invisible line. But they do make some people richer: (1) inefficient producers who can now sell at higher prices and not go bankrupt because buyers depart, and (2) people who wear badges and carry guns for a living. If you think of these two groups as "crony capitalists" and "salaried extortioners," you will have the categories right.

If you want a visual image, think of Don Corleone's words: "I made him an offer he couldn't refuse." Think also of the man who woke up with a severed horse's head in his bed. That's Hamiltonianism.

7

GUNS, TRADE, AND SUBSIDIES

In Chapter 6, “Hamiltonian Economics,” I wrote about an invisible line down the middle of your street. Jones lives on the other side. You live on your side. Jones makes you an offer to sell something 20% cheaper than Smith sells. Smith lives on your side of the street.

Smith gets Brown and Green to impose a 25% sales tax on anything Jones offers to sell to anyone on your side of the street. Then I analyzed this arrangement in terms of who wins—Smith—and who loses: you, Jones, Green, and Brown.

I thought the metaphor of the invisible line was clear. There is no invisible economic line. There is only a judicial line. Judicial lines are matters of guns and badges. People on one side of the line drive in one direction. People on the other side drive in the opposite direction. It is illegal to drive in the wrong direction on either side. But, economically speaking, there is no line.

Similarly, there is an invisible judicial line in the middle of the Rio Grande River. There is also one along the coasts. There is one between Canada and the United States. These have to do with residency and voting, both of which have been made legal issues. These have to do with “our money” and “your money.”

My point: *there is no economic line*. The line exists as a judicial category, not an economic category. It becomes an economic category only because politicians turn these judicial lines into economic lines.

In the days before the income tax in 1913, anyone could come into the United States. There were no passports. Late in the 19th century, there was an entry point at Ellis Island. Immigration bureaucrats blocked the entry of sick people. This meant that immigration restrictions were a public health issue. The authorities blocked out microscopic invaders by blocking the people who carried them. But healthy people were allowed to enter the nation. My great-grandfather arrived from England this way. So did my Armenian father-in-law’s father.

A. War and Passports

We forget that the American passport was an imposition by two Presidents: Woodrow Wilson and Franklin Roosevelt. Here is the Wikipedia account as of 2012.

From 1789 through late 1941, the government established under the Constitution required passports of citizens only during the American Civil War (1861–1865) and during and shortly after World War I (1914–1918). The passport requirement of the Civil War era lacked statutory authority. After the outbreak of World War I, passports were required by executive order, though there was no statutory authority for the requirement. The Travel Control Act of May 22, 1918 permitted the president, when the United States was at war, to proclaim a passport requirement, and a proclamation was issued on August 18, 1918. Though World War I ended on November 11, 1918, the passport requirement lingered until March 3, 1921.

March 3, 1921, was the final day of Wilson's administration. The article continues. There was an absence of a passport requirement under United States law between 1921 and 1941. World War II (1939–1945) again led to passport requirements under the Travel Control Act of 1918. A 1978 amendment to the Immigration and Nationality Act of 1952 made it illegal to enter or depart the United States without an issued passport even in peacetime. The contemporary period of required passports for Americans under United States law began on November 29, 1941." That was a little over a week before the Japanese attack on Pearl Harbor. What remarkable timing!

B. Tariffs and Immigration

The 1924 immigration act imposed quotas on immigrants. Why? Because of the income tax, which had passed in 1913, according to the Attorney General, although not the voters. (See the two-volume book, *The Law That Never Was*.) Similar restrictions were placed on immigrants inside Europe.

World War I and the income taxes that paid for it led to these restrictions. When immigrants could become citizens and vote their way into other Americans' wallets, the barriers went up.

These barriers did not come down until 1968. In 1965, Senator Teddy Kennedy and President Lyndon Johnson figured out that Mexican immigrants' children born inside the USA would become voters and join the Democrats to help Democrats vote money out of Republicans' wallets two decades later. The Immigration Act of 1965 went into effect in 1968.

That law was a huge gift to Republican employers. It broke the labor union movement. Immigrants worked cheaply in right-to-work states. Their products could be exported North—no tariffs. Democrats don't like to remind their constituents of this fact. Republicans don't, either. It gives too much credit to the hated Teddy and LBJ. But Teddy and LBJ gave the conservative movement its greatest domestic political victory in the second half of the twentieth century: the rollback of trade unionism.

This was the immigration side of the victory. The other side was President Kennedy's move to lower tariffs: the famous GATT tariff reductions. The Democrats were the ramrods of reduced trade barriers. The flood of imported goods broke the back of trade unionism, which had relied on government intervention beginning in 1935: the Wagner Act. America's labor markets were reclaimed from the Democrats of 1935. The Democrats did this. The Republicans did not have the votes. In any case, the Republican legacy had always been high tariffs, all the way back to Abraham Lincoln.

C. Who Wins? Who Loses?

I did my best to show that trade between people on "This Side" and "That Side" should be a matter of free choice between individual traders.

One of my subscribers asked these questions.

1) If the person in "This Side" does not drop his price to compete with the person on "that side" and people on "this side" bought regularly from "that side" would there not, all other things being equal and over time, be a transfer of wealth to "that side" from "this side"? And, if that transfer of wealth were large enough would that not eventually hurt "this side", possibly making them subservient to "that side" now that "that side" has more wealth and the abilities that come with it? (presupposition is that depraved man will use wealth to harm his neighbors and the corollary that wealth is a form of defense). Maybe the assertion is invalid as long as venders on "this side" will come down in price and

compete with vendors on “that side”. But, the tariff would, at least, keep the wealth on the same side of the street where, supposedly, you have more in common (i.e. defense interest) than with those across the street.

2) What if the people on “that side” have a death wish for the people of “this side” and they have a policy to use revenues generated by sales to create ways to destroy “this side”?... would not “this side” be wise to discourage trade with “that side”? This would be antifree trade, no doubt, but it seems rather insane to fund your enemy... in this scenario it seems that the invisible lines might make a difference?

I will do my best to answer these questions. They all stem from an incorrect understanding of voluntary exchange. These errors are the default setting in most people’s thinking. Mercantilism and Hamiltonianism rest on them.

People think *nationally* in terms of “them vs. us.” They think *individually* in terms of “Let’s make a deal.”

If the person in “This Side” does not drop his price to compete with the person on “that side” and people on “this side” bought regularly from “that side” would there not, all other things being equal and over time, be a transfer of wealth to “that side” from “this side”?

With what do people on This Side buy the goods? Money. Where did they get the money? By selling something.

So, people buy a cheaper item from sellers on That Side. This leaves them with *more money in their pockets* on This Side. They can now spend it or invest it. They are not poorer than before the trade. They are richer. They have the item they bought, plus the extra money.

There is a transfer of wealth to the other side: money. There is also a transfer of wealth from the other side: stuff.

The mercantilist defines money as wealth, and stuff as . . . what? He never really says. He just says it’s not as valuable as money.

David Hume (1752) and Adam Smith (1776) argued against this. They said that stuff is wealth, too. But the Hamiltonian mindset cannot fathom

this. The Hamiltonians want Americans to spend most of their money on stuff manufactured by subsidized, inefficient producers on This Side. So, they pass sales taxes on imported goods.

The fact is this: if the stuff imported from abroad were not regarded as worth more than the money exported to pay for it, no one on This Side would buy from anyone on That Side. No buyer is in the charity business. No buyer gives away something for nothing in business.

What of the sales not made by the manufacturer on This Side, because there was no buyer available on That Side? This question, the Hamiltonians prefer to ignore. That seller is not a member of the cronies in the protected, inefficient firms.

Hamiltonians subsidize domestic firms that cannot compete with foreign firms, while starving out firms that can compete, but cannot survive when the crony firms get the sales domestically. There is no extra money left over after the trade.

D. National Defense

This argument is common. I have heard it for half a century.

And, if that transfer of wealth were large enough would that not eventually hurt “this side”, possibly making them subservient to “that side” now that “that side” has more wealth and the abilities that come with it? (presupposition is that depraved man will use wealth to harm his neighbors and the corollary that wealth is a form of defense). Maybe the assertion is invalid as long as vendors on “this side” will come down in price and compete with vendors on “that side”. But, the tariff would, at least, keep the wealth on the same side of the street where, supposedly, you have more in common (i.e. defense interest) than with those across the street.

This is the old “national defense” argument. Here is the key fact. Military defense is not a matter of voluntary exchange. It is a matter of guns and uniforms and coercion. Once again, the argument invokes guns.

Question: Why should the government allow *any* trade with a foreign enemy, if the issue is war? What has a 20% sales tax got to do with defending the nation? I can see it now. In the middle of World War II, Roosevelt pro-

poses a 20% import tax on German and Japanese goods. Would that have been taken seriously?

If this warfare argument holds up, then Congress should impose a 100% ban on trade. Tariffs? You mean we should charge Americans an extra 20% or 30% because the government on the other side of the line is going to nuke us? Does this make sense?

This argument sounds nutty. That is why no one in Congress ever mentions it when arguing for tariff increases. No one has ever invoked this argument in public. But Hamiltonians use it, since they have no valid economic arguments. They use whatever is available.

Now on to #2.

What if the people on “that side” have a death wish for the people of “this side” and they have a policy to use revenues generated by sales to create ways to destroy “this side”?... would not “this side” be wise to discourage trade with “that side”? This would be anti-free trade, no doubt, but it seems rather insane to fund your enemy... in this scenario it seems that the invisible lines might make a difference?

This is the same argument. It is re-stated in new words.

Answer: what has a 20% tariff got to do with defending the nation against defeat and destruction?

In any case, the U.S. government has done the opposite over the last 60 years.

E. Subsidies for Exports

In 1961, the United States government authorized the Bryant Chucking & Grinder company to sell to the USSR the machines that alone made the unique ball bearings that alone made possible MIRVed nuclear warheads.

What’s that? They never told you this in high school? Gee, I wonder why not. Here is Antony Sutton’s account.

The Bryant Chucking Grinder Company accepted a Soviet order for thirty-five CentalignB machines for processing miniature ball bearings. All such precision ball bearings in the United States, used by the Department of Defense for missile guidance

systems, were processed on seventy-two Bryant Centalign ModelB machines.

In 1961 the Department of Commerce approved export of thirty-five such machines to the USSR, which would have given the Soviets capability about equal to 50 percent of the U.S. capability.

The Soviets had no equipment for such mass production processing, and neither the USSR nor any European manufacturer could manufacture such equipment. A Department of Commerce statement that there were other manufacturers was shown to be inaccurate. Commerce proposed to give the Soviet Union an ability to use its higher-thrust rockets with much greater accuracy and so pull ahead of the United States. Subsequently, a congressional investigation yielded accurate information not otherwise available to independent nongovernment researchers and the general public.

Why was that in the national interest? Because it made possible the multi-trillion-dollar build-up of the military-industrial complex, 1961–91. When I say “national interest,” I am referring to the national interest, according to the military-industrial-congressional complex.

Then, in 1972, Congress approved export subsidies to the USSR to provide wheat. The Soviets’ socialized agriculture had produced another of its recurring minicrops again. This subsidy for the USSR raised food prices in the USA. But, because it was the policy of the U.S. Department of Agriculture to subsidize agriculture and therefore keep food prices high, this was seen as consistent with American self-interest, as defined by Congress.

Conclusion

The separation of “This Side” from “That Side” exists because of politics. It becomes an economic issue only because politics is allowed to intrude in economic issues.

The popular Hamiltonian argument for tariffs for national defense makes no sense. A 30% tariff on a country that intends to destroy you makes no sense. This is why it has never been invoked in Congress. It is just one more example of protectionists’ grasping at conceptual straws.

If anything, free trade reduces the urge to go to war. It creates a domes-

tic constituency against going to war. “Make profits, not war!” “Sell trinkets. Don’t die.”

8

THE LOGIC OF TARIFFS ON BOTH SIDES OF THE BORDER

I have found over the years that when I debate with people who promote tariffs, meaning import sales taxes enforced by people with badges and guns, they always adopt arguments that apply only to America's side of the border. They refuse to adopt those very same arguments for people on the other side of the border.

I challenge defenders of tariffs to state their arguments in terms of both of the people who want to trade on both sides. The ethics and economics of restricted trade surely apply to the person who wants to trade on the other side of the invisible line known as a national border. If the arguments for restricted trade apply to the "protected" economy, then surely they apply to the other nation's economy. *Logic and ethics do not change just because we cross an invisible judicial line.* I take this position because I want the protariff person to face the implications of his position.

It never ceases to amaze me that I am almost never able to persuade a person who defends tariffs to follow the logic of his argument. Without exception, the person insists that the invisible line dividing two jurisdictions called nations is economically significant, and therefore sales taxes on imported goods on the American side of the border are legitimate, wise, and beneficial to the vast majority of Americans. Yet, when I ask him to make exactly the same case with respect to the people on the other side of the fence, which means either Canadians or Mexicans, the person is incapable of making his case. What seems utterly clear to him with respect to Americans on their side of the border seems ridiculous when he tries to state the case from the point of view of the Mexicans or the Canadians on the other side of the border.

Why is this? Why is it that an argument that sounds utterly logical and utterly ethical from the point of view of an American who defends American tariffs on imported goods should not sound equally logical and equally ethical from the point of view of the Mexican or Canadian on the other side

of the border?

There is a reason for this. *His argument is ludicrous.* When he applies it to people across the border, the argument becomes far more obviously ludicrous. So, he prefers not to consider what happens on the other side of the border.

A. French Agriculture

For the sake of argument, let us start with a real-world situation. In France, the government has long protected French farmers against imports of American food. American grain would lower the price of grain in France. French farmers would find it less profitable to compete. So, they get protection by law. This legal precedent goes back to 1892.

The competition began with the development of the grain reaper in the 1840s. Then came the advent of the railroads in the 1850s: cheap transportation from the grain belt to New York City's harbor or to the Mississippi River. Then came steamships in the 1870s: large ships that sailed year-round. They carried a lot of grain. As a result, American farmers became the most efficient wheat farmers on the face of the earth. Canadians were also very efficient, but Canadians struggle against the weather. Canada is located far north: a shorter growing season. This gave an advantage to American farmers.

The French government, under pressure from French farmers, raised tariffs against imported food in 1892: the Méline tariff. The main targets of this legislation against imported food were American farmers. The French government deputized bureaucrats to go to the borders and impose restrictions on imported American grain. This reduced demand for American grain in France. This meant that American wheat farmers could not legally establish a voluntary arrangement with French grain wholesalers, who sold to French bakers, who wanted to sell lower-cost bread, and who wanted to buy lower-cost American-produced grain to do this.

How ethical was this action on the part of French farmers? How ethical was the use of political pressure by French farmers to raise the price of bread for poor Frenchmen, merely for the sake of gaining more income for themselves, and, as a side effect, reducing income for American farmers? It was unethical. If done by a private person or organization, it would be criminal.

A consistent American defender of tariffs should rejoice in the fact that the French government succumbed to the pressure of the French farmers, even though American farmers were the losers. The tariffs in France re-

duced trade. According to the pro-tariff advocate, this made Frenchmen richer. The defender of American tariffs should feel good that French politicians thought so highly of the logic of tariffs that they passed the 1892 tariff and have continued to restrict imports of food into France until this day.

What's sauce for the goose is sauce for the gander. Whatever constitutes wise economic policy on one side of a border constitutes wise economic policy on the other. Agreed?

As for poor Frenchmen, who want less expensive bread, a consistent defender of tariffs should conclude that these people deserve higher prices, and they deserve it for the sake of the nation, as defined by French farmers. This is a variation of the famous French phrase: "Let them eat cake." (Note: Marie Antoinette never said this.)

Can you imagine an American defender of the idea of tariffs in (say) 1895, going public with his praise of the French government's restrictions on the import of American farm products? Can you imagine any American magazine or newspaper publishing such a defense? Can you imagine a newspaper aimed at American farmers publishing an article by a defender of tariffs, who argued that it was not only the right of the French government to keep out American farm products, but that it was even a moral responsibility to do so?

You say you can't imagine this? Neither can I. Why not? *Because the argument for tariffs is morally and economically irrational.* It is easier to see this when you are the victim of a tariff. Your self-interest clarifies the argument. It makes clear that a pro-tariff argument is a defense of special-interest laws that favor inefficient producers who cannot compete effectively with imports. Customers prefer imports. Customers must therefore be thwarted through state coercion, domestic producers assert. "The customer is always right, except when he buys imports!"

The French government succumbed to the political pressure of French farmers, for a very good reason: French farmers voted as a bloc. They also provided money for French politicians' campaigns.

The poor people in France did not have an equally well-organized voting bloc, nor did they understand the logic of the free market, which identified them as the great losers of the tariff system.

Obviously, no politician in France paid any attention to the complaints of American farmers, who were obviously the losers in the arrangement. What did a French politician care about the opinions of an American farmer?

Nevertheless, a defender of market liberty in France should have cared. Equally, on the other side of the Atlantic Ocean in the United States, a defender of market liberty should also have cared. The defender of market liberty in France should have taken very seriously the losses sustained by American farmers. The defender of market liberty in the United States should have taken very seriously the losses sustained by poor people in France, who had to pay more for the basic staple of their lives: bread.

In short, an ethical defense of liberty, as well as an economic defense of liberty, applies equally to both sides of any national border. Anyone who claims to defend market liberty for his own people should be equally prepared to defend market liberty for the people on the other side of the national border. This is the doctrine of *the rule of law*. This widespread acceptance of this principle has made the West rich.

B. Tariffs vs. the Rule of Law

The difference between the defender of tariffs and the defender of market liberty is this: the defender of tariffs does not believe in, nor does he go public with, a systematic defense of the legitimacy of tariffs on the other side of the border. What he wants is a no-tariff situation on the other side of the border, and a tariff law on this side of the border. He wants Americans to be able to sell whatever they want at the best possible price to people on the other side of the border. But he does not want to have people on the other side of the border to be legally allowed to sell at the best possible price for people on this side of the border.

This is “different strokes for different folks.” *It is a denial of a fundamental principle of both ethics and economics.* It denies the equal applicability of the legitimacy of justice on both sides of an invisible line, namely, a national border. People who favor tariffs are willing to admit that people should have a legal right to trade without federal government interference with people across the street, or people outside the zip code, or people across the county line, or people across the state line, but then they think the state should revoke this right at the national border. The logic of free trade supposedly stops at the national border. So does the logic of ethics.

No matter how many times I say this, no matter in how many ways that I say it, there are people who come back to me and argue for exactly the same principle that I have described here: the non-applicability of the logic of tariffs on the other side of the border.

The *logic* of badges, guns, and sales taxes must be applied on both sides of the border. The *ethics* of badges, guns, and sales taxes must be applied on both sides of the border. The logic and ethics of free trade theory are applied on both sides.

Any American who has the slightest hesitation to defend the legitimacy of the French government when it establishes tariff restrictions against the import of American farm products should think carefully about the ethics of his defense of tariffs that are imposed by the United States government on the import of French goods or any other goods.

To do this requires the ability to apply economic logic and ethics to people on both sides of the invisible line known as the national border. Very few people have this ability. Very few people who defend tariffs have this ability. I have never come across such a person. They literally cannot bring themselves to understand that what is sauce for the goose is sauce for the gander. They really do believe that American politicians who restrict imports and thereby restrict exports are acting in good faith, and are benefiting the vast majority of Americans. Yet they will not apply the same logic to the government on the other side of the border.

C. The Same Effects on Both Sides of the Border

The economic effects of a tariff on this side of the border are the same as the economic effects of a tariff on the other side of the border. Pro-tariff advocates do not understand this.

If the government of the United States restricts trade with somebody across the border, a foreign exporter cannot obtain American dollars. He would otherwise have been able to obtain American dollars because he would have been able to sell goods to an American. He would have deposited this money in an American bank. This is what exporters do all the time. They have bank accounts in the countries they export to. The foreign exporter could then have spent those dollars on American-produced goods and services. Or he could have invested in American businesses. He could also have bought U.S. Treasury bills, thereby funding the federal government.

When the United States government restricts foreign sellers of goods and services from selling in the United States, this action reduces the number of dollars available to foreigners to buy American products. This means that *a tariff against imports has exactly the same effects as an American tax*

on American exports. The person on the other side of the border is kept from buying American products.

In the case of an *export tax*, he is kept from buying American products by a man with a badge and a gun who sticks the barrel of the gun into the belly of an American exporter and tells him, "you cannot legally sell to that foreigner until you pay the tax." In the case of a *tariff*, the agent sticks a gun in the belly of an American importer, and tells him "you are not allowed to import goods from that foreigner until you pay the tax." In both cases, the foreigner is not given the right to spend his money on American products.

Once you see it this way, I hope you will see that *the losers in this arrangement are on both sides of the border*. American exporters are not able to sell as many goods and services to foreigners as they would have been able to sell, had the government of the United States not sent out men with badges and guns to prohibit trade. The American importer of foreign goods cannot buy as many foreign goods, so the foreigner does not get his hands on American dollars, and he does not spend the money on American goods and services. Also, he does not invest in American companies.

D. The Economics of War and Peace

We do not see export restrictions very often. We do see them in wars. We do not see them in peacetime. Why don't we see them in peacetime? Because these laws are a liability to American exporters, a strong voting bloc. They reduce trade between Americans and foreigners.

Whenever a tariff is imposed, this restricts exports to the foreign country, because people in the foreign country cannot get access to as many dollars as they would have been able to gain access to if trade had been allowed.

Why doesn't the defender of tariffs defend with equal fervency state-imposed export restrictions? If the economic effect is the same, namely, *a reduction of American exports*, why don't defenders of tariffs go to the public and tell voters that they need to vote for politicians who will vote in Congress for tariffs and also vote to establish barriers to American exports?

The answer is obvious: *American voters are not stupid enough to vote for legislation to restrict American exports*. Unfortunately, because they do not understand the logic of economics, which is an affliction they share with all defenders of tariffs, they do not understand *tariffs have the same effects as export restrictions*. So, they are willing to vote for politicians who vote for sales taxes on imported goods. They do this on the assumption that this is

good for all Americans, when it is obviously terrible for American exporters. It is also terrible for customers who would have been able to buy goods made abroad at cheaper prices.

To reduce imports, it is necessary only to restrict exports. The government does not have to pass a tariff. It need only pass an export tax. Let me explain.

When, during wartime, the United States government has imposed export restrictions to those nations with which the government is at war, the government has also officially imposed import restrictions against goods sold by residents of that same foreign nation. In wartime, voters do have the ability to understand the logic of an export restriction. They do understand that by imposing an export restriction, the government is interfering with free trade. This is what import restrictions do, too.

From a logical standpoint, a fleet of American ships that kept goods from flowing to the enemy nation would also restrict goods coming in from that nation. That is the logic of a naval blockade. But this is also the logic of both tariffs and export taxes. The goal is to reduce trade.

If it is impossible for people in the other country to get their hands on dollars, then they cannot buy from exporters in the United States. The whole point of the export restriction is to make certain that nobody on the other side of the border with dollars has the ability to buy American goods. In wartime, exporters accept this for the sake of the national cause. They realize that it is a wartime restriction. As soon as the war ends, the export barrier is supposed to be repealed. But if the export barrier is supposed to be repealed, then the import barrier is also supposed to be repealed, and for exactly the same reason: *peace has been restored*.

Men understand that export barriers are wartime measures. They also understand the import barriers are wartime measures. They understand the logic of war. The logic of war is against voluntary exchanges between people on different sides of the border. Yes, we all know of stories of some minimal trade that goes on between military units that are actually involved in combat. It happened during the American Civil War (1861–65). It was not supposed to happen with respect to military armaments, but it happened with respect to things like tobacco, which Southerners had to exchange, and other items, such as medical items, which the Northerners had in greater abundance. But there are not supposed to be wide-open borders between warring sides in a great conflagration. Voters accept this.

[Note: just for the record, the Bank for International Settlements in Switzerland during World War II cleared accounts for banks on all sides. There was still trade. There were still transfers of gold. There were representatives from the major nations at the BIS. None of this was ever discussed publicly. The public would have suffered from “cognitive dissonance.”]

After the hostilities are over, and peace has been restored, trade barriers are supposed to go down. But, because certain manufacturers on both sides of the border are now threatened by imports from across the border, they are sometimes successful in persuading governments to pass import restrictions, although not export restrictions, in order to keep away the competition. In other words, *peace really has not been restored completely.*

Every tariff that is imposed deliberately to restrict the import of goods and services from abroad is a mini-act of war. *Tariffs should be seen as acts of war.* They should be analyzed economically and ethically as acts of war. During wartime, they are clearly seen as acts of war. They are accepted by the voters in the name of the life-and-death struggle of military conflict. The problem is, *the logic of peace is not extended to imported goods after hostilities have ceased.*

Any time that a government sends out a man with a badge and a gun to restrict trade, this is an economic act of war. Nobody should favor a restriction on other people’s trade unless the results of that trade are comparable to the results of trade during wartime.

I have never seen the logical case for tariffs based on the application of the ethics and economics of war. There is no understanding by the promoters of tariffs that what they are doing is calling for an economic policy that is widely accepted in wartime, but which should have no place in any peacetime economy.

I am not talking about tariffs as a means of generating revenue. Every tax is a restriction on somebody’s trade. The only justification for a tax ought to be that the tax will make possible greater peace. Any tax that is imposed as a means of extracting wealth from one group in order to be transferred to another group is an act of war. It is the politics of plunder.

E. Tariffs and the Welfare State

Taxation is supposed to apply to all people in approximately the same way. Modern welfare economics refuses to accept this principle. Welfare economics seeks to legitimize the use of people with badges and guns to

confiscate money from one group of voters in order to transfer the money to another group of voters (minus commissions for government handling). This is class warfare. This is why Karl Marx, in the *Communist Manifesto* (1848), recommended as his second step in creating the transition between socialism to communism the establishment of a steep graduated income tax. He understood it as class warfare.

Why do conservatives want warfare at our national borders? Why do they think that the economics of war, although scaled down, should be the basis of our lives? Why do people really believe that it is legitimate for a government to threaten violence against two people on opposite sides of a national border, so as to benefit a small group of manufacturers who are threatened by competition from manufacturers on the other side of the border?

Nobody pays any attention to the domestic manufacturers that would otherwise have been able to export to people on the other side of the border. Remember: *the economic effects of a tariff are the same as the economic effects of an export barrier*. Yet defenders of tariffs simply cannot perceive this. They are impervious to the logic of economics.

The case against tariffs is the case against undeclared warfare. It is as simple as that. The case against tariffs is the case against special-interest politics based on a completely false economic analysis that is ultimately welfare state economics.

Anyone who defends a tariff for anything other than revenue is a defender of the welfare state. He wants to defend limited groups of American voters at the expense of the large majority of Americans. He wants special-interest legislation, which is based on violence and the threat of violence, in order to transfer money from one group of Americans to his favored special-interest group.

Adam Smith's *The Wealth of Nations* is a 900-page book in favor of free trade at every level, in every realm of life. Ever since the book was published, the #1 litmus test of free-market economic logic has been low or no tariffs. The person who calls for tariffs to make a nation richer is a non-economist.

Today, we still find conservatives who support tariffs as wealth-producing taxes. These are people who say they believe in the free market. But they get to the invisible border separating nations, and they say this:

Here, the logic of economic freedom ends. Here, we need a government official. We need sales taxes. We need a man carrying a badge and a gun to stick the gun in the belly of every person on this side of the border and say: "I will not let you trade unless you pay me." They say that this man with the gun will make all of us richer.

F. Polylogism

The conservative thinks that economic logic ends at a national border. Logic is only for borders inside national borders: city borders, county borders, and state borders. But logic does not apply to national borders.

Adam Smith asked: "Why not?" For over two centuries, the answer has been: "Because I say so." Ludwig von Mises called this *polylogism*: multiple logics. He had no use for it.

Do you suffer from polylogism?

Do you want the man with the gun and the badge interfering with your town and the next one up the road? Do you think everyone would be richer if there were border patrol officials with badges and guns manning the highway and collecting a percentage on everything offered for sale? No? Good. You believe in economic liberty, free trade, and the division of labor.

What about border patrol officers between counties? No? Good. You are a free trader.

What about more officers, guns, badges, and sales taxes separating state lines? No? Good; you are a free trader.

We have reached the border between our nation and the one across the invisible line. Do you want guards, badges, guns, and sales taxes?

At this point, most conservatives would say, "yes." Why? "Because that's good for America!" It is not good for towns, counties, and states. But it's good for America. Why?

They have no answer. They do not see the connection. They say this: "Everyone knows that sales taxes are bad between towns, counties, and states. But everyone knows tariff barriers between countries are good. So, I don't have to answer. There is no problem here. Everyone knows that."

Polylogism strikes again.

I have found that there is no logical cure for polylogism. The affliction defies a logical cure. *A logical cure assumes a single logic.* The polylogist rejects this idea.

Some people get upset with bureaucrats with badges and guns, so I al-

ways talk about tariffs in terms of badges and guns. The power of these images overcomes polylogism . . . once in a while, anyway. Not often, but once in a while.

Should we build better roads? "If there are net benefits." What are the benefits? "More trade."

Should we post guards with guns and badges on the highways—not to pay for the highways, for which tolls work fine, but to restrict trade? "No." Why not? "That would restrict trade."

How about bridges across rivers? "Yes." How about train tracks across state lines? "Yes." Why? "Because they increase trade." Is increased trade good? "Of course, dummy. Everyone knows that."

We are now at the Canadian border. "We need men with guns and badges!" Why? "To impose tariffs." Why? "To restrict trade." Is decreased international trade good? "Yes. Everyone knows that. It makes everyone better off." On both sides of the border? "Yes." But not at the state border. "No." Not at the country border. "No." Only at the national border. "Yes."

Polylogism strikes again.

The afflicted person is literally unable to see the logical disconnect here. Why not? I don't know, but I have dealt with this for 50 years. I don't expect this to change.

I see the case for tariffs as substitute for the income tax. It gets the federal tax collectors out of my personal life. But that's not what the pro-tariff conservatives say. They defend tariffs as being good for people in their nation because tariffs restrict international trade.

Jones manufactures socks. Wong manufactures socks. Smith plans to buy socks from Wong. The socks are cheaper. Jones pulls a gun on Smith. "You ain't gonna buy no socks from no gook. You gonna buy them from me. Got it?"

Conservatives are enraged. "It's a violation of property rights."

So, Jones gets organized politically. He gets the government to impose tariffs on socks from China. The government sends out men with guns and badges to keep Smith from buying socks from Wong. The armed men say to Smith: "This is going to make America richer. Pay us a tax." To save money, Smith buys from Jones.

Conservatives cheer. "It's a way to make Americans richer."

Polylogism strikes again.

Adam Smith argued against tariffs in 1776. Henry Hazlitt argued

against them in *Economics in One Lesson* in 1946. Mises argued against them in *Human Action* 1949. Milton Friedman argued against them in *Capitalism and Freedom* in 1962.

A lot of conservatives don't read economics books. They don't believe what they don't understand, and they don't understand economics. They think they do, but they don't. They resist the main thesis of *The Wealth of Nations*: trade benefits everyone. Government restrictions on trade harm most people.

Polylogism undermines the conservative movement.

Conclusion

I do not make the case for free trade in order to persuade defenders of tariffs. I know that it is virtually impossible for anyone to persuade the defenders of tariffs by using either economic logic or ethical arguments. They are impervious to both. Economic logic makes no sense to them. They cannot follow the logic of their position to its inescapable conclusions, which they reject. So, they deny the legitimacy of economic logic. As for ethics, they think that badges and guns and sales taxes are good for the nation. They fully approve of wealth-redistribution by government coercion, as long as this coercion transfers money to those domestic producers who would otherwise have been abandoned by customers.

I make the case for free trade to those people who really do want to be consistent in what they think and do. They do not want to be on the side of those people who want to protect their incomes by committing what are basically *acts of war* against other Americans, and by extension, against peaceful people on the other side of the national border.

To understand the logic of tariffs, always begin thinking about tariffs with the mental image of two people on opposite sides of the street. If you do not start with a pair of traders, and if you do not deal with the basic issues of trade in terms of people on opposite sides of the street, you will be easily manipulated by non-economists who want to defend the welfare state. They will use statistics that are irrelevant and arguments that are irrelevant in order to get you on the side of *the politics of plunder*, which the welfare state always is. They will claim that only anti-patriots would oppose tariffs, in the same way that welfare state socialists claim that only exploiters of the poor could possibly argue against the economics of violence that undergirds every welfare state.

My goal is to persuade people against both the anti-economics and anti-ethics of the welfare state. This includes my arguments against tariffs and against import quotas. If you are opposed to the welfare state and its use of the threat of violence to get into other people's wallets, then you had better oppose tariffs, import quotas, and all other restraints of trade between people on two sides of an invisible line called a national border.

If you still refuse to give up the idea of tariffs as legitimate ways to redistribute wealth, then you should at least admit to yourself and others that you favor the welfare state. It's time to come clean. You favor the politics of plunder. This is your argument.

"You see this badge? That means I am here in the name of the People. You see this gun? That means the People have entrusted me with power to uphold their interests. You got that, boy? The People. You see where this gun is pointed, boy? At your belly. Now get out your wallet. Hand over your sales tax money. It's for the People. What's that? You say you would rather not make the purchase after all? It's too expensive now, you say? Well, that's for the People, too. Now you will buy from the People, if you buy at all. The People thank you. I thank you. You have a nice day, hear?"

9

GROWING TOYOTAS, MANUFACTURING SOYBEANS

Here are two hypothetical business articles.

(Des Moines, Iowa)—Jeremiah V. Jones, a farmer living in nearby Elkhart, thinks it will be a very good year. “The weather has been excellent. We ought to get a good crop.” This fall he planted Toyotas. “We rotate the crops, of course. In fall, we plant Toyotas. In spring, it’s Nissans. In summer, we usually plant Isuzus, mostly for ground cover. It works out well most years, although a drought three summers ago wiped out half our Isuzus.”

When asked about models and colors, he says he’s betting on red winter Toyotas. “Pretty hardy crop. Withstands cold weather better than the metallic blue variety. Good crop for Iowa. ‘Course, if anything comes of this global warming business, we may have to switch. No signs of it yet, though.”

(Nagoya, Japan)—Toshiro Uda, director of the Tanaka Soybean Works, is guardedly optimistic about prospects for soybean sales this year. “Demand remains high. But why not? This is Japan, after all. Our main concern is with supply. The whole industry has been adding plant capacity. The new robots have really streamlined production.”

Mr. Uda pointed with obvious pride to the main floor of his spotlessly clean factory. Only three men were visible, sitting in front of computer screens, monitoring every aspect of the soybean production process, from the “just in time” deliveries at the front end of the factory to the robot-controlled packaging as the newly canned beans headed to the docking area. “Nothing else like it in the industry,” he said.

These stories do not make sense technically. They do make sense economically.

A. Who Buys What?

These two news reports sound like something out of a bizarre science fiction short story about some future era where nanotechnology—manufac-

turing at the molecular level—has become a reality. Economically, however, both reports are the essence of a modern economy. Sometimes it takes a little surrealism to make economics clear to people.

The farmer in Iowa who plants soybeans or any other crop aimed at the market has no intention of personally eating his crop—certainly not soybeans. In the United States, soybeans are eaten mostly by household pets and certain health food devotees. Most of the soybean crop is exported, and a significant portion winds up in Japan.

The goal of farmer Jones is not to consume soybeans. He plans to buy something else. He wants money. He will sell the crop to the highest bidder, but agricultural crops being what they are, a uniform price will confront all soybean farmers, adjusted for transportation costs and other minor differences. In the bidding war, the Japanese importers of soybeans usually win. They buy the lion's share of the crop. Soybean oil is used for many products. Fido and Kitty get most of whatever remains. Although I find it difficult to imagine, I suppose the rest goes into soybean burgers.

Similarly, the goal of Mr. Uda is not to drive a fleet of Toyotas. He plans to buy something else. He wants money. He will sell the Toyotas to the highest bidders, but car sales being what they are, a lot of nonprice competition exists: models, colors, and features. In the bidding war, the Americans will buy, if not the lion's share, then at least a good-sized black bear's share.

Taken as an individual, farmer Jones may or may not buy a Toyota or feed his household pets soybeans. Mr. Uda may or may not eat more soybeans or buy a new Toyota this year. But, taken as nations, a lot of Joneses will buy Toyotas, and a lot of Udas will buy soybeans.

The economic question is: What is the least expensive way for the Joneses to buy their Toyotas, and for the Udas to buy their soybeans?

B. Getting the Money to Buy

To buy a Toyota produced in Japan, Mr. Jones will need some Japanese yen. To buy some soybeans, Mr. Uda will need some dollars. But neither Mr. Jones nor Mr. Uda normally handles the currency of the other nation. So, intermediaries in both countries (or maybe in a third country) intervene to make it possible for both Jones and Uda to buy what they want. They sell dollars to the Japanese importer who wants to import soybeans. They sell dollars for yen. They sell yen to the American importer who wants a ship-

ment of Toyotas. They sell yen for dollars. Back and forth, back and forth: the currency traders are always in search of a lower price for the currency they plan to buy next. The importers then sell their newly imported products to buyers in their respective nations.

How do the soybean farmers get the yen to pay the importers of Toyotas? They grow soybeans. How do the Toyota manufacturers get the dollars to buy the soybeans? They manufacture Toyotas. So far, so good.

The Iowa farmer is uniquely equipped to grow soybeans. He has a tremendous advantage here. The Japanese manufacturer is not uniquely equipped to manufacture Toyotas. Land costs in Japan are high: too high for growing soybeans—low value per square foot—but not too high for manufacturing Toyotas. It would be a lot more expensive for the Iowa farmer to shift production to Japan than it would be for the Toyota manufacturer to build a Toyota factory in Iowa.

The economic reality is this: the soybeans will move from Iowa to Japan for as long as the high bidders for soybeans are in Japan. Meanwhile, Toyotas will move from Nagoya to America for as long as the higher bidders are in America and the overall costs of production plus export remain lower in Nagoya.

C. Giving a Good Account

I would rather drive a Toyota than eat soybeans. There are Japanese who would rather dine on soybeans—presumably a great deal of soybeans—than drive a Toyota. As always, there is no accounting for taste. There is, however, accounting for costs of production.

Accountants on both sides of the Pacific Ocean are fluent in a strange and arcane language: double-entry bookkeeping. The discovery and development of doubleentry accounting was one of the greatest discoveries of all time. It allows specialists in accounting to inform a producer regarding the success or failure of his efforts. The market provides the numbers: income vs. expenditures. The accountants inform the producers: “keep up the good work” vs. “shut the whole thing down until you figure out a cheaper way.” When the producers listen to their accountants, an amazing thing happens: soybeans get grown in Iowa, and Toyotas get built in Nagoya.

Well, maybe this is not so amazing. But explaining to people how this happens is more difficult than you might imagine. People really do not understand the whole process. This is why politicians can frequently persuade

voters to erect barriers to imports. Politicians rarely campaign on a platform of “Let’s pay more for the things we enjoy!” but they often campaign on a platform of “unfair competition.” They get elected, too.

D. The Economists’ Disadvantage

Economists have discovered a way for drivers and diners to fulfill their respective desires with the least expenditure of money. It is called free trade. Each producer specializes in what he does best, that is, does with the least expenditure of scarce economic resources. Each consumer is therefore able to take advantage of the cost-effective production methods of the least wasteful producers. The trouble is, economists have not always been as successful in explaining this as the politicians have been in persuading voters to go along with tariff increases and import quotas. It is not easy to persuade voters in either country that Iowa farmers are really growing Toyotas, while Nagoya workers are really producing soybeans. It is not easy for most voters to grasp the fact that the laws of physics and biology are different from the laws of economics: specifically, the law of comparative advantage.

The politician looks at the short run. “Look at all the jobs that these imports are destroying.” The economist looks at the long run: “Look at all the choices each individual can make.” Voters see unemployed workers, or read about them. They have a lot more trouble relating their increased number of affordable choices to the decrease of restraints on trade. People frequently vote in terms of short-run issues, especially visible ones. So, the politician has long enjoyed an advantage over the economist in persuading people to support restraints on trade. It takes a very good economist to make the case for long-term personal advantage for many consumers vs. short-term advantages of reduced competition for specific unemployed workers. Adam Smith was a very good economist; he made a persuasive case. But not many people read Adam Smith these days.

Not being Adam Smith, I have taken a shorter path to economic understanding: a bit of surrealism to make my point. So, I recommend that the next time you test drive a Toyota, think about that Iowa farmer and how hard he works to make your test drive economically possible. But remember: you are skipping the joys of eating several soybean burgers in order to make your test drive possible.

E. But What About Manufacturing?

Isn't it bad for America to lose manufacturing jobs? That is what promoters of tariffs argue. Is this a good argument?

What is the greatest single indicator of increasing national wealth in a middle-class society? The answer to this is not intuitive. In fact, it is counterintuitive.

The greatest single indicator of increasing per capita wealth in a middleclass society is the decline in the percentage of people employed in manufacturing. The fewer people who are employed in manufacturing, the greater is national per capita wealth.

In the United States today, only about 11% of America's GDP is involved in manufacturing. Put differently, 89% of the GDP of this country's output is not involved in manufacturing. This is not something new. This has been going on since about 1953.

About one American in six is involved in manufacturing. We have seen an extraordinary increase in per capita wealth in the United States since 1953. That was the first year of the Eisenhower administration. Anyone who would say that manufacturing has been the basis of America's wealth since 1953 needs to deal with the reality of the declining percentage of manufacturing in the American economy. There is no cogent way to argue that America's wealth is dependent upon the manufacturing sector. On the contrary, the proper way to argue is that America's wealth has been tied to a decrease in the importance of manufacturing.

The reason why Asia has had a huge increase in manufacturing is simple: China abandoned Communism as an economic mode of production in 1979. As the Chinese economy has moved out of Communism and into Keynesian mercantilism, it has grown more wealthy. That is because Communism was the worst economic system ever devised. Keynesianism and mercantilism are vastly more productive than Communism. So, there has been a move out of agriculture and into manufacturing. China has reproduced what took place in the West in the 19th century. It did this in approximately 35 years: 1980–2015.

China's increase in per capita wealth has been based on the adoption of manufacturing and the abandonment of collective agriculture. For China, manufacturing has been a tremendous factor in the increase in per capita wealth. But that is because China began with collective agriculture. China

was kept in poverty from 1949, when the Communists took over, until around 1980. It was mired in traditional agriculture, which was made even worse because the Communists collectivized the old family plots.

So, while the West has substituted services for manufacturing, Asia has substituted manufacturing for low-output agriculture. The transfer of manufacturing from Western Europe, the United States, Australia, and New Zealand to China has been part of the process of the international division of labor. Greater freedom of trade and greater mobility of capital have combined to create increasing per capita wealth around the world. The transfer of manufacturing to the Third World was inherent in this process of the increased division of labor internationally.

There are still people in the United States who do not understand this process. They do not favor international trade. They favor tariffs and import quotas. In other words, they favor the government sending out agents with badges and guns, and sticking guns in the bellies of Americans who want to trade with foreigners. They think the basis of wealth is a government agent with a gun, and the barrel of the gun pointed at the belly of an American. They believe in coercion. They love the state. They love sales taxes on imported goods. They are mercantilists. They suffer from the same economic ignorance that drives central bankers. They have never accepted Adam Smith's analysis of mercantilism. They are still stuck mentally in the early 18th century. They think big government is the solution to poverty.

I get tired of the high-tariff, gun-in-my-belly advocates. These people always are in favor of manufacturing rather than services. They want to use state coercion to keep the manufacturing sector expanding in the United States. In other words, they do not believe in liberty. They do not believe in free exchange across borders. They believe in coercion as the basis of wealth. As tariffs have fallen, international trade has increased. The manufacturing sector has decreased as a percentage of America's GDP. They wail in despair at the fact that the manufacturing sector has declined. They are basically labor union promoters. The labor unions maximized their percentage in the American workforce at exactly the time that manufacturing peaked: in the early 1950s. Ever since then, the percentage of union members in the American work force has declined.

F. Manufacturing and America's Wealth

This has been good for America's economy. It is much more difficult for

unions to organize service workers than manufacturing workers. As the manufacturing sector of the economy has declined, so has union membership. Beginning around 2010, public sector unions had more members than private sector unions.

Anybody who likes freedom should rejoice when there is greater mobility of capital (exchange of ownership digital currencies in bank accounts on two sides of a border) and greater international trade. Both of these phenomena move manufacturing to backward nations that live in abject poverty. People without much education can be trained to be productive in the manufacturing sectors. Their increased productivity raises their nations' per capita wealth. Their increased productivity also lowers the cost of manufactured goods, which is good for people who live in developed nations. They can buy more goods at lower prices. But this of course makes it more difficult for the manufacturing sectors in their own countries. These sectors have to become more efficient, which means they have to innovate production techniques.

One of the reasons why the robotics revolution is going to be a benefit for Americans is the fact that there are not that many Americans who are employed in manufacturing. Robotics is mainly a threat in manufacturing, although not entirely. The percentage of Americans threatened by robotics is a lot less than the percentage of Chinese urban workers who are threatened by robotics.

Moore's law, announced in 1965 by Gordon Moore, one of the inventors of the integrated computer chip, said that the density of silicon computer chips would double every 18 months to two years. It was an observation, but it proved true from 1965 until about 2020. It reduced the costs of manufacturing. How? By making low-output workers unemployable in manufacturing. We can be certain that the percentage of the American workforce that is involved in manufacturing is going to decline over the next 20 or 30 years. Robots are going to steadily replace floor workers. Robots do the work cheaper and more efficiently. The people who are freed up will have to learn new skills. They will move into the service industries. This will be a sign of increasing per capita wealth. There is always a need for more people to help us get done those things that we want to get done. It is more difficult to mechanize services than it is to mechanize manufacturing processes.

I hope you understand this process. It is an easy thing to understand, but the general public probably doesn't understand it. The general public

still thinks that manufacturing is the way to wealth. It is in a Third World nation. It is not in the United States.

Conclusion

It makes economic sense for producers to specialize in those areas of production that they know the most about, and in which they have a competitive advantage. This was the message of Adam Smith in 1776. It is the message of most economists everywhere today.

When we specialize, we attain greater output than if we do not specialize. Some people specialize in manufacturing. Others specialize in farming. Others specialize in providing services. As countries get richer, they provide more services. Developing countries move from small-scale agriculture to manufacturing. This is what Great Britain did in the late 18th century. It is what the United States did from 1800 until the early 1950s. These countries were the pioneers and what was known as the Industrial Revolution. But that revolution is changing. The most valuable asset is accurate information, not raw materials, and not machines made out of raw materials.

Families recognize this. They do not send their sons and daughters off to the university to major in agriculture. Those few students who do major in agriculture specialize in computer analysis or soil analysis, not manufacturing. This replacement of men by machines has been going on since at least 1844: the development of the mechanical reaper. Parents send their children to major in knowledge-based disciplines that will give them a competitive advantage, or at least will enable them to live middle-class lives in urban areas. These students will spend the rest of their lives trying to stay ahead of computerized processes that threaten to replace them in their jobs. There is no escape from the steady reduction of information costs.

While it would make sense for young adults to major in modern manufacturing, it would be highly computerized, highly technical, and would involve advanced knowledge of mathematics and marketing. Not many people are equipped to do this. The future of manufacturing is not the blue-collar worker. The future of manufacturing is high-technology, advanced computerization, robotics, and small-scale manufacturing with 3-D printers.

It is worth noting that Asian automobile manufacturers have created highly profitable plants in the United States, especially in the southeast. Part of this has to do with lower-cost shipping, but that is not the main reason. Land in the southeastern United States is cheap when compared to

land in Japan and South Korea. Asian automobile manufacturers can gain greater output for the same investment by designing plants that take advantage of low-cost American land. So, what was originally the so-called Japanese invasion of the American auto market turned out to be something very different from what it was in the 1970s. The market process has transformed Japanese and South Korean manufacturing and marketing to the United States. It turned out that it was more efficient to locate auto manufacturing facilities in the United States rather than in Japan or South Korea.

10

ENVY, ASIANS, AND TARIFFS: HOW TO KEEP AMERICA POORER

I have written about envy and its effects ever since the 1970s. I was first alerted to the problem in a 1971 article written by Murray Rothbard: “Freedom, Inequality, Primitivism, and the Division of Labor.” He summarized the findings of a 1966 book written by a sociologist whose name I knew well, Helmut Schoeck: *Envy: A Theory of Social Behavior*. Schoeck had co-edited a series of books that I owned, published by the William Volker Fund in the early 1960s. I bought the book, and it had a profound effect on my thinking.

The book’s thesis is this: envy is different from jealousy, and it is even more destructive. Jealousy is where someone thinks: “You have what I want. I cannot get it on my own. So, I am going to take yours away from you by force, preferably through politics.” This is the politics of plunder. Envy is different. Envy is where someone thinks: “You have what I want. I know that I can never get it. I am going to destroy what you have, so that you will not be able to enjoy it.” It is the politics of arson.

Schoeck made an observation: you can negotiate with somebody who is jealous. Maybe you can figure out a way that you could share some of what you have, and he will be bought off. This is surely what goes on in modern politics.

He made another point: you cannot negotiate with somebody who is envious. The fact that you are in a strong enough position to offer him something of value further enrages him. He resents the fact that you have so much that you might be willing to give up a little of it in order to placate him. It is your position of strength that angers him. He wants to strip you of any sign of superiority over him. He does not want to become beholden to you. If he gained anything as a result of a negotiation, he would still feel as though you were in a stronger position than he is. He would far rather see you devoid of whatever it is that you have than gain anything from you. In other words, you can deal with the jealous person; you cannot deal with the

envious person. Envy is therefore a sin that it is almost impossible to deal with in somebody else.

The problem is, it is very difficult to deal with in ourselves.

A. Heaven or Hell

The Bible offers a few cases of outright envy, but the story of Satan that English-speaking people are most familiar with is the story of envy. It is summarized in the one line from Milton's *Paradise Lost* that educated people remember. Satan makes this claim: "I would rather rule in hell than serve in heaven." This is the essence of envy. The devil had a good deal going for him in heaven. But he chose to rebel. It was better to be thrown out of heaven and cast into hell, in his thinking, than it was to remain in heaven. Heaven offered a great lifestyle, but not for someone driven by envy.

The point that Rothbard made in 1971 was this: socialism is driven by envy, not jealousy. He wrote: "Helmut Schoeck's *Envy* makes a powerful case for the view that the modern egalitarian drive for socialism and similar doctrines is a pandering to envy of the different and the unequal, but the socialist attempt to eliminate envy through egalitarianism can never hope to succeed." To the extent that socialism is based on envy, this assessment is correct. Therefore, it does no good to attempt to get a settlement with envy-driven people who are promoting socialism. You cannot persuade them by showing that socialism is less efficient than capitalism. They do not care that they would be richer under capitalism than under socialism. They realize that socialism is a system for tearing down people who are more successful. Therefore, you cannot placate a socialist who is driven by envy.

I am convinced that most people regard certain forms of economic intervention as a benefit to them. Most people who promote larger government are jealous people, but not envious. They think that others have gotten rich at their expense, and all they are really after, they insist, is a way to settle the score. They will settle for getting more of what somebody else possesses. They see politics as a way to negotiate a better deal for themselves at the expense of the minority of rich people.

Nevertheless, there is a hardcore of academic and intellectual leadership within the socialist movement that really is driven by envy. They really are not convinced by the fact, which they have believed since 1991, that

capitalism is more efficient than socialism. They still are outraged by inequality, and they would rather destroy the capitalist system than negotiate with it. They would rather live in hell than live in heaven, because heaven is a place of inequality.

I do not think most socialists believe this. This is why we do not find many socialists any more. Ever since the death of the Soviet Union on December 25, 1991, it has been clear to socialists around the world that socialism leads to economic poverty. It took the collapse of the Soviet Union to convince a majority of socialists of this position. So, most of them really are more driven by jealousy than envy. They are out to steal from the rich rather than destroy them.

I find that the problem with envy afflicts conservatives as much as it afflicts socialists. In fact, I am of the opinion that it afflicts them even worse than today's socialists. Let me explain.

B. Envy-Driven Conservatives

I hear endless warnings about the fact that Asians are getting rich. This bothers millions of conservatives. They are ready to impose tariffs and other restrictions on imports from Asia. They are ready to accept a high national sales tax on goods manufactured in China, despite the fact that they say that they are opposed to tax increases. They always make the exception for tariffs: sales taxes on imported goods. This has been going on for over 300 years. This was the heart of the old mercantilist system, which was based on a defense of the British Empire. It was a mixed tension between jealousy and envy.

Why do I say this? Because people know that they will suffer more by paying higher taxes for imported goods. Nevertheless, they think it is a great idea to reduce imports from abroad. Why do they think this? Because, as voters, they think in terms of their position as employees, not as consumers. They are convinced that, because a product imported from Asia may reduce demand for the product which they manufacture, they will be better off if there are sales taxes on imported goods. This is jealousy. But there are some hardcore conservatives, meaning envy-driven conservatives, who really believe that an economy works better in a high-tariff environment. They understand that they will have to pay more as consumers, but they do not care. They hate the idea of Asians getting ahead. They hate the idea of the comparative advantage of anybody.

The problem is this: *all trade is based on comparative economic advantage*. Somebody else does something better than you do, so you trade with him in order to better your position. People understand this with respect to the efforts of somebody who lives across the street or around the block. But they do not believe it, and they argue against it, when somebody lives across a particular invisible line called a national border. Before the Constitution was ratified, the border was a state border. Ever since the Constitution was ratified, resistance to imported goods from other states has disappeared. Everybody accepts this within the United States. But, with respect to imported goods, most Americans prefer tariffs.

Some Americans prefer them because they understand that free trade will advance foreigners who have comparative advantages in certain forms of manufacturing, and they resent the idea that foreigners will ever enjoy an advantage in anything. This is envy, pure and simple. It is the desire to tear the other guy down just for the joy of seeing him torn down.

Free trade of any kind, whether with someone across the street or around the world, benefits the other person. In some way, he will do better after the voluntary exchange, or at least he thinks he will. A specific case of free trade can lead to a loss of income by somebody who is not efficient in a particular field in the economy. But, if we are talking about the effects of the system on the lives of paying customers, free trade is universally beneficial. There are enough people across a particular border who are willing to sell something cheaper, or improve its quality, so that customers on the other side of the border will be benefited.

There is no question that Asians are getting richer, faster, and more widely than Americans are. Why is this? Because they were so far down. When you begin to expand the growth of anything, it grows more rapidly when it is smaller than when it gets larger. Example: some investor can do very well at the beginning of a successful investment strategy, but, at some point, the rate of return slows down, because he becomes a larger player in the particular field. He cannot buy low and sell high, because he is the biggest guy buying low and trying to sell high.

Individuals in China are, for the most part, poverty-stricken. Most people living in China live in rural areas that are incredibly poor. But we do not see them, and we do not hear about them. We hear stories about a handful of entrepreneurs who were born in poor rural areas, moved to a city closer to the coast, found a way to become productive in the export business, and

got rich. As a percentage of the population, there are very few of these people in any society, but because there are so many people in China, we hear more of these stories.

Americans keep hearing these stories, which are promoted by people who have no comprehension of economic theory. *Mercantilism is the intellectual default setting of most people most of the time.* They want a monopoly for themselves, granted by the civil government, such as occupational licensing. They adopt as a philosophy of voluntary exchange what is in fact a philosophy of involuntary exchange. Adam Smith argued against these arguments in 1776, but we still find that the average person is a mercantilist in his thinking.

C. Asian Demographics

Asians have a huge problem: they are not reproducing themselves. Across Asia, birth rates have fallen rapidly. In South Korea, in China, and for over a generation in Japan, birth rates are now below replacement rate. In other words, they are below 2.1 children per family. Japan will suffer from this, but China will be also begin to suffer from this, beginning sometime around 2025. The expert here is Nicholas Eberstadt. Japan is rich. It got into the Western system of free trade long before China did. Japanese oldsters are rich compared to other Asians. China is still poor. Now, it is facing demographic aging on a scale never before seen in a large nation.

The old Chinese system had sons supporting their aged parents. This may still work in the countryside, but it is fading as an ideal in the cities. Sons have departed from their rural homes, and they are seeking wealth in the cities. The vast majority of them are unlikely to achieve sufficient wealth by 2025 to enable them to support aged parents. Aged parents are still rural, and they are still poor.

There is an under-funded government retirement system in China. But, as the bonds between sons and parents are weakened by urban living, the traditional family-based care system is beginning to break down. Sons will not be able to afford to support parents, because there will be more parents than sons in a family. In the old days, multiple sons contributed resources to support the parents. Today, in a majority of families, there is only one son per family. This is the direction that China has gone ever since the late 1970s.

D. Rich and Poor

There is this popular thought: Asians are going to be in a position to tell Americans what to do, because they will be highly productive, and we will not be productive. This is nonsense. Nobody tells anybody what to do in a system of voluntary exchange. Everybody wants to trade with somebody who has more money. They are willing to trade with poor people, but only if there are a whole lot of poor people, which means that someone could sell to a whole lot of people and make the money on volume.

The way to get rich is not to enslave somebody else. The way to get rich is to persuade somebody with money to agree to a deal that he prefers not to refuse. You do not go into business to sell something to people with no money. You go into business to sell something to people who have a lot of money. They have so much money that it is not a big burden for them to buy. It is really hard to sell something to somebody who is poor, because he does not have enough money to buy what you want to sell.

This is obvious in a one-on-one situation. But, when people begin to think about the invisible line called a national border, they lose their ability to think economically. An invisible national border is Kryptonite for economic reasoning.

To think that Asians are going to make Americans poorer by selling Americans things Americans want to buy is illogical. Nobody gets poor by buying something cheap that he really wants to buy. He has less expense in buying the item, which means he has more money left over to buy something else. This is so obvious that you would think everybody would believe it almost by the time he reaches age eight or nine. But people choose not to believe it whenever they think about an invisible line called a national border.

The richer you are, the less likely that somebody in Asia is going to produce something that a firm in your nation manufactures. So, when we see Asians getting wealthy, we ought to rejoice. But, because of envy, we are tempted to resent the increasing wealth of Asians. We would not resent the increasing wealth of somebody who lives across the street, or somebody we go to church with. But we do resent it when someone across an invisible national border gets wealthier.

If Mexicans got much richer, and they stayed in Mexico to work rather than come to the United States, millions of Americans would rejoice. This, in fact, is what has been taking place ever since the recession of 2008–9. The immigration rate from Mexico has slowed, and the reason for it is obvious:

Mexico's economy has been growing. Per capita wealth in Mexico has been rising. National wealth in Mexico has been rising. Americans do not worry about this. They are barely aware of it.

Surely, they do not worry that Canadians are getting rich. I do not think anybody in America worries about Canadians getting rich. Yet Canada is a major trading partner of the United States. It is second only to China, but not by much.

In other words, Americans are illogical in economics. They do not follow an economic argument. I think the reasons they do follow are two-fold. First, they think as producers who are facing competitors from abroad. They do not think of themselves primarily as customers who are getting a better deal from abroad. Second, some of them really are driven by envy. Maybe most of them are not, but enough of them are. They see that they will get richer if they trade, but, because they are rich, and because the person they trade with is less rich if the person is in Asia, they resist additional trade, because they know, as a percentage of personal wealth, the Asian will do better from the trade. He is so poor compared to an American, and the American is so rich compared to the Asian, that the voluntary exchange is likely to improve that Asian's lifestyle more than it improves the American's lifestyle. This is resentment by rich people against poor people.

We think of socialism as driven by envy: poor people, who have more votes, resent the success of rich people. But, with respect to foreign trade, it is the opposite. Rich people, meaning tens of millions of Americans, resent the success of poor people, meaning hundreds of millions of Asians. Americans have all those poor people trying to compete against each other to sell them something of value, yet the Americans resent this. Economically, this attitude is self-destructive. That is the problem with envy. It is self-destructive.

In the good old days, which were not so good, rich people hired lots of servants. They liked to have lots of servants around them who did not have any money had few prospects. They did not want poor people to get rich by working in a factory, because poor people would then charge more money to work as domestic servants in rich people's households. In the era of Southern plantations and New York aristocratic families, rich people preferred poor people to stay poor. They liked the hierarchy they enjoyed, because they were comparatively much richer than the servants who worked for them.

Today, well over a century later, the average poor person is better off economically than the rich person was in the old days. He has better medical care; he has a television; he has all of the gadgets that have come onto the market since 1850. As the libertarian humorist P. J. O'Rourke says, when we think of the good old days, we should think of one word: dentistry. I quote that often because it is so true.

What makes Americans richer is the liberty of contract and trade.

Conclusion

Do not worry about Asians getting richer at Americans' expense. Everybody gets richer at somebody else's expense, which is the meaning of trade. There are no free lunches. Everyone gives up something in the transaction. But the emphasis should be on the words "everyone gets richer." Do not be fooled by words "at the expense of."

If Asians get richer, faster, rejoice. It's good enough to get richer, slower.

Trade is superior to autarky. Community is better than a hermit's life. The division of labor is our friend.

Better to serve others in heaven than to be alone in hell.

11

HOW TO FIGHT A TARIFF WAR

Chapter 10 was originally published as an article on Lew Rockwell's site. Almost as soon as it was published, I received this email.

I am a regular reader of your articles published on LewRockwell.com, and most of the time I agree with you. I consider myself a "conservative" Libertarian. That is, I believe in the capitalist and free market system, small government, less regulation and less government intrusion into our private lives the same as a classic Libertarian. Where I part ways with your thinking is over the issue of tariffs. Tariffs are anathema, of course, to classical Libertarians, because tariffs violate their commitment to "free trade." The problem with that position is that we don't have free trade. Our manufacturers are required by government regulation to pay a minimum wage, to provide medical coverage, to limit the work day to 8 hours, to provide a myriad of other costly benefits to workers, and to permit unions to extort even more costly benefits out of the hapless factory owner, all of which drive prices up. Then, if Libertarians have their way, these put upon factory owners are required to try to sell their goods in the ostensible "free market" in competition with, say, Chinese factory owners, who pay their workers \$10 per day, provide no benefits and require their workers to work 12 hour shifts. That's not a "free market!" The only way to rectify this and bring manufacturing back to our shores is to impose a tariff so that it costs just as much to make a product in China as in the United States.

But that would result in higher prices, you might say. Yes, it would. But we've paid a terrible price for the "low prices" we find at Walmart. We've ruined our own.

This recommendation, if adopted by the United States government,

could launch round one in a tariff war. Here is my answer. I wrote it in 1969 for *The Freeman*. Its title: "Tariff War, Libertarian Style."

* * * * *

"Common sense economics" is a phrase used to describe the economic reasoning of the proverbial man in the street. In many instances, this knowledge may rest on principles that are essentially correct. For example, we have that old truism that there are no free lunches. If some of our professional experts in the field of governmental fiscal policy were to face the reality of this truth, they might learn that even the skilled application of policies of monetary inflation cannot alleviate the basic economic limitations placed on mankind. Such policies can make things worse, of course, but they are powerless to do more than redistribute the products of industry, while simultaneously redistributing power in the direction of the state's bureaucratic functionaries. On the other hand, not all of the widely held economic beliefs are even remotely correct; some of these convictions are held in inverse proportion to their validity. The tariff question is one of these.

The heart of the contradictory thinking concerning tariffs is in the statement, "I favor open competition, but. . ." Being human, men will often appeal to the state to protect their monopolistic position on the market. They secretly favor security over freedom. The state steps in to honor the requests of certain special interest groups—which invariably proclaim their cause in the name of the general welfare clause of the Constitution—and establishes several kinds of restrictions on trade.

Fair trade laws are one example. They are remnants of the old medieval conception of the so-called "just price," in that both approaches are founded on the idea that there is some underlying objective value in all articles offered for sale. Selling price should not deviate from this "intrinsic" value. Monopolistic trade union laws are analogous to the medieval guild system; they are based in turn upon restrictions on the free entry of nonunion laborers into the labor market.

Tariffs, trade union monopolies, and fair trade laws are all praised as being safeguards against "cut-throat" competition, i.e., competition that would enable consumers to purchase the goods they want at a cheaper price—a price which endangers the less efficient producers who must charge more in order to remain in business. The thing which most people tend to overlook in the slogan of "cutthroat competition" is that the person whose

throat is slashed most deeply is the solitary consumer who has no monopolistic organization to improve his position in relation to those favored by Statist intervention.

People are remarkably schizophrenic in their attitudes toward competition. Monopolies of the supply of labor are acceptable to most Americans; business monopolies are somehow evil. In both cases, the monopolies are the product of the state in the market, but the public will not take a consistent position with regard to both. The fact that both kinds operate in order to improve the economic position of a limited special interest group at the expense of the consumers is ignored. Business monopolies are damned no matter what they do. If they raise prices, it is called gouging; if they cut prices, it is cut-throat competition; if they stabilize prices, it is clearly a case of collusion restraining free competition. All firms may be prosecuted. No firm is safe.

The state's policies of inflation tend to centralize production in the hands of those firms that are closest to the newly created money—defense industries, space-oriented industries, and those in heavy debt to the fractional reserve banking system. It is not surprising that we should witness a rising tide of corporate mergers during a period of heavy inflationary pressures, as was the case during the 1960s in the United States. Yet, with regard to business firms (but not labor unions), the courts are able to take action against almost any firm which is successfully competing on the market.

As Dr. Richard Bernhard has pointed out, "What is becoming illegal under federal law in the United States is monopolizing—as the law now defines monopolizing; and, since this is now considered a crime, it is possible that perfectly legitimate business actions by one firm may, if they 'inadvertently' lead to monopoly power, put a firm in jeopardy of the law." Thus, we see a rational economic response on the part of business firms—consolidation for the sake of efficiency on an increasingly inflationary market—prosecuted by the state which has created those very inflationary pressures. There is an inconsistency somewhere.

A. Tariffs Are Taxes

A tariff is a special kind of tax. It is a tax paid directly by importers for the right to offer foreign products for sale on a domestic market. Indirectly, however, the tax is borne by a whole host of people, and these people are seldom even aware that they are paying the tax.

First, let us consider those in the United States. One group affected adversely by a tariff is that made up of consumers who actually purchase some foreign product. They pay a higher price than would have been the case had no duty been imposed on the importer. Another consumer group is the one which buys an American product at a high price which is protected by the tariff. Were there no tariff, the domestic firms would either be forced to lower their prices or shift to some line of production in which they could compete successfully. Then there is the nonconsumer group which would have entered the market had the lower prices been in effect; their form of the "tax" is simply the inability to enjoy the use of products which might have been available to them had the state not intervened in international trade.

Others besides the consumers pay. The importer who might have been able to offer cheaper products, or more of the products, if there had been no tariff, is also hurt. His business is restricted, and he reaps fewer profits. All those connected with imports are harmed. Yet, so are exporters. They find that foreign governments tend to impose retaliatory tariffs on our products going abroad. Even if those governments do not, foreigners have fewer dollars to spend on our products, because we have purchased fewer of theirs.

Two groups are obviously aided. The inefficient domestic producer is the recipient of an indirect government subsidy, so he reaps at least short-run benefits. The other group is the state itself; it has increased its power, and it has increased its revenues. (It is conceivable to imagine a case where higher revenues might in the long run result from lower tariffs, since more volume would be involved, so we might better speak of short-run increases of revenue.) We could also speak of a psychological benefit provided for all those who erroneously believe that protective tariffs actually protect them, but this is a benefit based on ignorance, and I hesitate to count it as a positive effect.

A second consideration should be those who are hurt abroad, although we seldom look at those aspects of tariffs. Both foreign importers and exporters are hurt, for the same reasons. The fewer foreign goods we Americans buy, the fewer dollars they have to spend on American goods and services. This, in turn, damages the position of foreign consumers, who must restrict purchases of goods which they otherwise might afford. This leaves them at the mercy of their own less efficient producers, who will not face so much competition from the Americans, since the availability of foreign exchange (U.S. dollars) is more restricted.

The tariff, in short, penalizes the efficient on both sides of the border, and it subsidizes the inefficient. If we were to find a better way of providing “foreign aid” to other countries, we might provide them with our goods (which they want) by purchasing their goods (which we want). That would be a noninflationary type of aid which would benefit both sides, rather than our present system which encourages bullies in our government and creates resentment abroad.

B. Protecting Vital Industries

What about our vital industries, especially our wartime industries? If they are driven out of business by cheaper foreign goods, what will we do if we go to war and find our trading patterns disrupted? Where will we find the skilled craftsmen?

There is some validity to this question, but it is difficult to measure the validity in a direct fashion. It is true that certain skills, such as watch making, might be unavailable in the initial stages of a war. There are few apprentice programs available in the United States in some fields. Nevertheless, if there really is a need for such services, would it not be better to subsidize these talents directly? If we must impose some form of tax subsidy, is it not always preferable to have the costs fully visible, so that benefits might be calculated more efficiently?

A tariff is a tax, but few people ever grasp this fact. Thus, they are less willing to challenge the tax, reexamine it periodically, or at least see what it is costing. Indirect taxes are psychologically less painful, but the price paid for the anesthetic of invisibility is the inability of men to see how the state is growing at their expense. What Tocqueville referred to as the “Bland Leviathan”—a steadily, imperceptibly expanding state—thrives on invisible and indirect taxes like inflation, tariffs, and monthly withdrawals from paychecks. It ought to be a basic libertarian position to discover alternative kinds of tax programs, in an effort to reduce the economic burden of the state by making the full extent of taxation more obvious.

C. Trade War, Statist Style

One advantage of the direct subsidy to protected industries is that such subsidies would not normally result in trade wars. When one nation sees its products discriminated against by another state, it is more apt to retaliate directly. It threatens to raise tariffs against the offending country’s products

unless the first country's tariffs are reduced. If there is no response, pressures arise within the threatening country's state bureaus to enforce the threat. That, it is argued, will frighten other nations which might be considering similar moves. So the tariff war is born. The beneficiaries are the inefficient on both sides of the border and the state bureaucrats; the losers are all those involved in trade and all consumers who would have liked to purchase their goods at lower prices. This kind of war is therefore especially pernicious: it penalizes the productive and subsidizes the unproductive.

Another cause is the fear of state bureaucrats during times of recession or depression that domestic industries will not be favored when domestic populations buy from abroad. This was the case under the infant neomercantile philosophies so popular in the 1930s. The depression was accompanied by a wave of tariff hikes in most of the Western nations, with reduced efficiency and economic autarchy as a direct result. Domestic manufacturers cry for protection from foreign producers. What they are crying for with equal intensity is protection from the voluntary decisions of their own nation's domestic purchasers; it takes two parties to make a trade, and protection from one is equally protection from the other.

The effect of tariff wars is reduced efficiency through a restriction of international trade. Adam Smith, in *Wealth of Nations*, presents his now famous argument that the division of labor is limited by the size of the market. Reduce the size of the market, and you reduce the extent of the division of labor. The cry for protection should be seen for what it is: a cry for a reduction in efficiency. But there are so few vocal interest groups representing those who benefit from freer trade, while those who have a stake in the intervention of the state make certain that their lobbyists are heard in Washington. The scapegoat of "unfair foreign competition" may be small, but being small, it is at least easy to sacrifice.

D. The Balance of Trade

In precapitalistic days, economists believed that nations could experience permanent "favorable" balances of trade. A favorable balance was defined as one where you sold more goods abroad than you imported, thus adding to the national gold stock. Wealth was defined primarily in terms of gold (a position which, even if fallacious, makes more sense than the contemporary inclination to define wealth in terms of indebtedness). Prior to the publication of *Wealth of Nations*, the philosopher, David Hume, dis-

posed of the mercantilist errors concerning the balance of trade. His essays helped to convert Adam Smith to the philosophy of classical liberalism. Hume's essay, "Of the Balance of Trade," was published in 1752 in his *Political Discourses*; it established him as the founder of modern international trade theory.

The early arguments for free trade still stand today. Hume focused on the first one, which is designated in modern economic terminology as the price rate effect. As the exported goods flow out of a nation, specie flows in. Goods become more scarce as money becomes more plentiful. Prices therefore tend to rise. The converse takes place in the foreign country: its specie goes out as goods come in, thus causing prices to fall. Foreign buyers will then begin to reduce their imports in order to buy on the now cheaper home markets; simultaneously, consumers in the first nation will now begin to export specie and import foreign goods. A long-run balance of trade is the result. A second argument is possible, the income effect. Export industries profit during the years of heavy exports. This sector of the economy is now in a position to effect domestic production, as its share of national income rises. It will be able to outbid even those foreign purchasers which it had previously supplied with goods.

Last, we have the exchange rate effect. If we can imagine a world trading community in which we have free floating exchange rates on the international currency markets (which most governments hesitate to permit), we can see the process more easily. In order to purchase domestic goods, foreigners must have a supply of the exporting nation's domestic currency. As demand for the goods continues, the supply of available currency drops lower. Foreigners competitively bid up the price of the exporting nation's currency, so that it costs more to obtain the currency necessary to buy the goods. This will discourage some of the foreign buyers, who will turn to their own markets. Where we find fixed exchange rates, the same process exists, but under different circumstances. Either black markets in foreign currencies will be established, or else some kind of quota restrictions will be placed on the availability of the sought-after currency, as demand rises for exchange. Foreigners will simply not be able to obtain all the currency they want at the official price. Thus, what we witness is an balancing process of the exchange of goods; there can be no longrun imbalance of trade. No nation can continue to export more than it imports forever.

E. Tariff War, Libertarian Style

When some foreign state decides to place restrictions on the importation of goods from another country, what should be the response of that latter country's economic administrators? Their goal is to make their nation's goods attractive to foreign purchasers. They should want to see the international division of labor maintained, adding to the material prosperity of all involved. If this is the goal, then policies that will keep the trade barriers at low levels should be adopted. Instead, there is the tendency to adopt retaliatory tariff barriers, thus stifling even further the flow of goods. This is done as a "warning" to other nations.

If the 1930s are anything like representative years of such warnings, then we should beware of conventional tariff wars. In those years a snowballing effect was produced, as each nation tried to "outwarn" its neighbor in an attempt to gain favorable trade positions with all others. The result was the serious weakening of the international specialization of labor and its productivity. At a time when people wanted cheaper goods, they imposed trade restrictions which forced prices upward and production downward. Professor Mises' old dictum held true: when a state tries to improve economic conditions by tampering with the free market, it usually succeeds in accomplishing precisely the results which it sought to avoid (or officially sought to avoid, at any rate).

The best policy for "retaliation" would be to drop all tariff barriers in response. A number of things would result from such action. For one thing, it would encourage the importation of the goods produced by the offending country. Then the three effects described earlier would go into operation. The offending nation would find that its domestic price level would rise, and that its citizens would be in a position to buy more foreign goods (including the goods of the discriminated country). What would be done with the currency or credits in the hands of citizens of the high-tariff nation?

They could not spend it at home. If we, as the injured party, continued to make it easy for our citizens to buy their goods, we would provide them with lots of paper money which could be most easily used to buy our goods in return. We would gain the use of the consumer goods produced abroad, and we would be losing only money. We would be getting the best possible goods for our money, so the consumer cannot complain; if we had imposed retaliatory tariffs, consumers would have had to settle for domestically produced goods of a less desirable nature (since the voluntary consumption patterns

are restricted by the imposition of a tariff). Our prices would tend to go down, making our goods more competitive on the international markets.

The statist tariff war is irrational. It argues that because one's citizens are injured by one restriction on foreign trade, they can be aided by further restrictions on foreign trade. It is a contemporary manifestation of the old cliché, "He cut off his nose to spite his face." It is time that we accept the implications of David Hume's 1752 arguments. The best way to overcome restrictions on trade, it would seem, is to establish policies that encourage people to trade more.

Part 3

**CLICHÉS OF
PROTECTIONISM**

INTRODUCTION TO PART 3

In Part 3, I refute a series of popular slogans that I call clichés of protectionism. They are widely used by defenders of tariffs.

If you have understood the arguments in Part 2, you will have little difficulty in understanding the arguments in Part 3. On the other hand, if the arguments in Part 3 confuse you, then you had better re-read Part 2.

As I said in the Introduction to Part 2, most people hear arguments in favor of protectionism before they hear arguments in favor of free trade. I could have started with the clichés of protectionism as Part 2, and waited to provide the more detailed critiques of protectionism for Part 3. I did not do this, because I wanted you to understand the case for the free market before you got to the clichés. My goal for this book is not so much to refute the clichés as it is to persuade readers of the moral and logical case for free trade. The case for free trade is the case for liberty. It is the case for individual voluntary exchange. It is a subset of the case for private ownership.

As you read the clichés for protectionism, you should return again and again to the basic principle of private ownership. The case for private ownership always involves the case for disownership. If you own something, you have the right to sell it, give it away, or throw it away. If you exercise the right to sell it, you are exercising the right to exchange it. This is the case for free trade. Always start here. Do not start with the invisible judicial line that divides two judicial entities called nations. To begin economic analysis with the nation-state is to begin with the implicit assumption of some form of corporatism. This is because the nation-state is a collective. It is a judicial entity. To begin with the nation-state almost always leads to confusion. It almost always leads to collectivist thinking. When people begin with the nation-state, they implicitly begin as methodological collectivists. Some collectivists move in the direction of socialism. Others move in the direction of Keynesianism. Some move in the direction of protectionism. I am trying to keep you from moving in any of these directions.

The average conservative is a patriot. He does not approve socialism. If he has heard of Keynesianism, he probably is skeptical. But he is highly vul-

nerable to arguments in favor of protectionism. He is usually drawn into protectionism by means of one or more of the clichés of protectionism.

By now, you should be immune to them. But you should at least recognize them. You should be able to articulate them as if you were a protectionist, and then refute them, point by point, as a defender of liberty. If you can argue the other person's position in such a way that an outsider does not know that you don't hold the position, you are in a much better position intellectually and rhetorically to persuade an outsider of the logic of liberty. You don't misrepresent the position that the protectionist holds. This enables you to refute the position in such a way that an outsider who is not made up his mind will be more likely to accept the logic of free trade. This in turn will lead him back to the logic of liberty, which is ultimately the logic of private ownership.

With this in mind, let us begin an investigation of the clichés of protectionism.

12

“TARIFFS STRENGTHEN THE NATION”

Probably the most successful conceptual error that is promoted by defenders of tariffs is this one: “Tariffs strengthen the nation.”

Tariffs, being sales taxes, are good for the national government, but they are not good for the nation. At best, they are less bad for the nation than a graduated income tax. But, since both are collected, tariffs are not a benefit for the nation.

If sales tax defenders came out and said the following, people probably would not believe them: “An extra sales tax is good for the nation.” Certainly, people who regard themselves as Tea Party members do not want to see an increase of taxes. They do not see taxes as a benefit to the nation.

The people who believe that tariffs are good for the nation are literally incapable of deductive economic reasoning. This argument has been used by mercantilists ever since the late 17th century. Adam Smith’s *Wealth of Nations* is a refutation of the mercantilist position. Nevertheless, people who are incapable of following a line of economic argumentation, and who get patriotic when they hear the word “nation,” rush to promote tariffs.

A. Protecting the Inefficient

Tariffs are good for domestic manufacturers who are not capable of competing with foreign manufacturers. They deeply resent competition of all kinds. But they find it difficult to get the Congress to tax their domestic competitors. So, they try to get what they can out of Congress: a sales tax on imported goods.

The insidious thing about tariffs is this: the average man does not understand that tariffs are selective sales taxes. He also does not understand that tariffs cost him. The main beneficiary of a tariff is going to be a domestic industry that can now keep its prices high because the tariff reduces price competition from abroad. It is a sweetheart deal for the protected domestic industry, but the protected industry employs relatively few people, compared with the overall number of people who have to pay extra money

in order to buy the imported goods to which a sales tax is applied, or who must henceforth pay more for domestically produced goods.

Defenders of tariffs believe that a man with a badge and a gun who sticks his gun in your belly as a consumer is a benefit to the nation. He is a benefit to the state. He is a benefit to the bureaucrats who collect the tax. He is a benefit to the crony capitalists who elect the politicians who pass the tariff bills. The average American pays more for what he buys, and he is the loser.

B. Many Losers, Few Winners

The problem is an ancient one. The cost of the tax is spread over a large number of people, but the benefit is concentrated on a small number of people. Therefore, this small number of people find that it is in their self-interest to direct the politicians to pass beneficial legislation for them, on the assumption that the general population will not understand what is being done to them. The price of organizing politically against a specific tax is high, because anyone doing the mobilization has to explain economic cause-and-effect to the average citizen, and the average citizen does not understand economic cause-and-effect.

The cost of educating the voters is high. The cost of bribing Congress is low. "Bribe" = money paid in advance for political services rendered.

This is a tremendous advantage for companies in the protected industries because their senior managers do understand economic cause-and-effect. They understand that a sales tax on a competing company that exports goods from abroad is going to benefit them. Why? Because they can keep retail prices high. So, *there is an asymmetric distribution of information*. The people getting the benefits by means of state coercion understand the relationship between tariffs and their profits. The people who pay the freight for the special-interest legislation that promotes tariffs do not understand the nature of economic cause-and-effect. The cost is distributed widely across the general population. The general population does not feel the tax, and therefore does not oppose the tax.

Price competition is basic to liberty. If two people in different nations agree on a particular price, which each of them expects to be mutually beneficial, the excluded sellers who would like to get in on the deal, but whose prices are too high, find that they can stop the deal if they persuade the national government to pass a law in favor of tariffs or import quotas.

The import quota does the government no good. It doesn't collect any money. A tariff benefits the government, and it also benefits those industries that would have faced foreign competition.

The losers are those people who pay more for their goods, for which they would have preferred to pay less. But somebody with a badge and gun has judicially stuck a gun in the belly of an importer, so the importer pays the tax. He may try to pass on the higher price on to consumers. Domestic producers hope he will. This will mean that they can hike their prices, line their pockets, and never get blamed for the fact that somebody with a badge and a gun has used coercion to stop a voluntary exchange. But consumers may decide not to pay the higher price. The person selling the imported good suffers losses. That also pleases domestic producers.

C. The Not-So-Solid South

In the American South prior to the Civil War (1861–65), Southern politicians understood what tariffs did to the agricultural sector, which most of the South was. Anyway, they understood after the War of 1812. Before the War of 1812, the major politician and political theorist of the South, John C. Calhoun, was a big tariff advocate—a “nationalist.” But Southern exporters of cotton did not like tariffs because they had to import goods from Britain. They had to pay an extra price to do so. Calhoun was a great defender of the South after 1815. He became a great opponent of tariffs. He opposed the “tariff of abomination” in 1828.

In the North, the Whigs and then the Republicans were great advocates of tariffs. They were great advocates of protecting infant industries, such as the steel industry, wrapped in political swaddling clothes. They made certain the tariffs were high because they understood that Southern farmers would be paying to fill the federal government's coffers.

What is astounding is that there are people who regard themselves as defenders of the Southern tradition, yet who are also great advocates of tariffs. They are advocates of the system designed by Alexander Hamilton, Henry Clay, William “Pig Iron” Kelly, and Abraham Lincoln to skim off the South's wealth. As Lincoln said in his first inaugural address in March 1861, after the South had seceded: “The power confided to me will be used to hold, occupy, and possess the property and places belonging to the Government and to collect the duties and imposts; but beyond what may be necessary for these objects, there will be no invasion, no using of force against or

among the people anywhere.” But the South had departed. Lincoln invaded. Guns and badges prevailed. This could have been the praise song of the invaders: “Father Abraham has many guns. Many guns has Father Abraham. I have one of them, and so do you. So, let us march to the sea!”

Politics makes strange bedfellows. So does protectionism.

Conclusion

Tariffs are selective sales taxes on imports. They make the customer pay more for imported goods and competing domestic goods. They reward producers of domestic goods who cannot offer deals comparable to the deals offered by importers.

The protectionists get Congress to send out a person with a badge and a gun. He sticks the gun into the belly of an importer. “I’m here in the name of the nation. Fork over your money.”

Tariffs do not help the nation, but they certainly help inefficient domestic producers who cannot compete with foreign producers. Tariffs allow them to raise their prices without fear of competition from more efficient foreign manufacturers. The national government collects money on the tariffs paid by importers, and state and local governments collect sales taxes from the higher-priced goods when they reach the market. *If paying additional sales taxes is good for the nation, then tariffs are good for the nation.* But defenders of tariffs ought to explain why they think the nation is better off when it pays additional sales taxes. They never do, of course. They never refer to tariffs as sales taxes. It would make their political sales job more difficult. The voters might figure out what is really going on. The voters might figure out that they will pay the bills for the economic benefits delivered to inefficient domestic manufacturers by politicians.

13

“BUY AMERICAN!”

“Americans have to pull together,” we are told. “They ought to help each other. If they don’t stop buying those foreign imports, they’re going to kill the U.S. economy.” In other words, “What’s good for General Motors is good for America.” That phrase came from the ex-president of General Motors when he was Secretary of Defense under Eisenhower in the mid-1950s.

Americans have this distressing tendency—one shared by buyers in every nation in the world—to buy what they regard as bargains, irrespective of “Made in U.S.A.” stickers. When Americans “buy American,” they have in mind something very specific: “Buying what this American chooses to buy.” They are only slightly concerned with buying what another American chooses to manufacture.

Does this indicate a lack of patriotism? Did all those people who bought Volkswagens in the 1950s deal the national interest a body blow? After all, they could have bought De Sotos, or Studebakers, or Packards. Why, they could even have bought Hudsons. But they didn’t after 1957.

Are we willing to modify ex-GM President Charles Wilson’s famous phrase? Are we willing to declare, retroactively, that “What’s good for Hudson is good for America”? Would anyone buy that bumper sticker?

For over two decades, foreign auto manufacturers sold products that saved on gasoline. Americans in the 1950s didn’t pay much attention to them. The gas-guzzler was a national institution, a 75-miles-per-hour, 15-miles-per-gallon temple to the promise of unlimited growth and 5% GDP increases, compounded annually, forever. Now some people argue that the gas-guzzler is innately evil, a destroyer of energy supplies. But Americans don’t need stern lectures from Volvo-driving sociology professors to teach them about the evils of the gas-guzzler. They get this lesson clearly enough every time they drive up to a gas pump.

A. Consumers Change Their Minds

What wiped out Detroit’s profits overnight was an overnight shift in car-buying preferences on the part of American consumers. The presence

of foreign imports allowed them to exercise their preferences. The buyers had been unable to make up their minds about whether to give up the long-preferred gas-guzzler. The gasoline lines and high prices of 1979 convinced them. They didn't need federally mandated mileage standards. They didn't need editorials in the *Washington Post* about the necessity of national conservation (by means of federally financed rapid transit systems). All they needed was a quick look at their monthly charges from their oil companies.

So, they changed their minds. This is what freedom is all about. Foreign auto manufacturers were there to sell the products people now demanded. Americans had a choice. In fact, they had several choices. First, keep the gas-guzzler, or buy another one, and wind up subsidizing OPEC. Second, buy a foreign import, thereby profiting Japanese or German companies, but reducing the subsidies to OPEC. Third, get on a waiting list for an American small car, few of which were available. Fourth, drive less and ride on the municipal bus line. (Choice number four is hypothetical, which I added only to make my model elegant. I believe that hardly anyone not employed by a university or a newspaper took the fourth choice very seriously.)

Millions of Americans decided to start paying dollars to Japanese car makers in order to cease paying dollars to OPEC nations by way of Texaco, Exxon, and so forth (minus 20% for handling). They made that choice because they calculated that they would serve their own self-interest better by reallocating their budgets away from Detroit and Saudi Arabia, and toward Japan or Germany, keeping whatever money that was left over to spend on something else. That, basically, is "the American way." Americans want extra money left for something else. That is also the Japanese way, the German way, the Swedish way, and the Lower Slobbovian way. Consumers want money left after they have made any given purchase.

B. Twisting Their Arms

It would appear that several automobile brands are threatened with the fate of Hudson. I will be a gentleman, and refrain from mentioning any names. I will simply lump them all under the category, "Son of Hudson."

Workers and management at Son of Hudson Motors are concerned. They find their share of the market declining, their unit costs of production rising, and their pension hopes fading. They look for an answer. The main reason is that the public is buying fewer cars or different brands of cars. But

everyone knows that Americans buy a new car every six years, or 70,000 miles, whichever comes first. (This practice, by the way, constitutes the single-most important form of voluntary wealth redistribution in American life, given the life expectancy of a car at 150,000 miles, and the depreciation well over 60% by year five.)

What is the obvious way to revive the sagging fortunes of Son of Hudson Motors? Twisting some arms. Of course, no one connected with the company would think of actually going down to the local Toyota agency and twisting the arms of potential buyers. Those kinds of tactics are reserved for nonunion auto workers, and the union has a limited number of professionals in this highly specialized field. Besides, management would regard this as unsporting. No, there is a better way, a more cost-effective way, a more traditional way. Manufacturers call it "the American way." Get the government to restrict sales of imports.

This was the advertising jingle of Toyota: "Get your hands on a Toyota, and you'll never let go!" The employees at Son of Hudson Motors apparently believe in this catchy jingle. What needs to be done, therefore, is to make sure that fewer American consumers get an opportunity to get their hands on a Toyota. So, they get a cost-effective, historically acceptable squad of goons to go out there and twist a few arms. But nobody calls it a goon squad. They call it Congress.

Picture this scene. Joe Lunchbucket goes down to his friendly Toyota agency to check out the new models. As he goes up to look at the price sticker on one car whose style pleases him, a giant of a man steps up next to him. "You interested in this car, Mac?" Joe gulps. "Why, yes. Are you the salesman?" Howls of laughter greet him. He looks at the price. "That price ain't no good here, Mac. It costs 20% more." Joe, startled, wants to know why. "These unpatriotic cars cost more, that's why." Joe wants to know who gets the 20%. "Funny you should ask, Mac. I do. It's all part of a program to save America. I'm here to help you to save America. You want to save America, don't you? What's good for Son of Hudson is good for America."

Of course, this is all exaggerated. Nothing like this happens. There really isn't some giant hulk of a guy in the showroom. There is only a mild-mannered customs official at the dock. This is more cost-effective. But your arm is just as sore, isn't it? If you want to get your hands on a Toyota, you will have to put up with a sore arm. The soreness is supposed to be just slightly more painful than the pain from buying a new Son of Hudson and

paying that extra levy to OPEC. You will have a sore arm in either case, but Congress wants the comparative soreness factor to favor Son of Hudson. This is the American way, political-style.

The genius of the system is that the victim never recognizes the assailant. Worse, by believing the traditional version of the American way, the consumer convinces himself that goon squads are necessary, so long as they only work the docks and carry official identification when they extract their “protection money.” That really is what we call it. Protection.

C. Another Variation: Export Controls

If the problem facing Son of Hudson is foreign competition, there is another way to accomplish the same end. Americans have to buy foreign currencies when they make a purchase of a foreign product. They may not understand this, but specialized currency traders do. They buy a foreign currency with dollars, and then they sell these foreign currency units to American firms that want to import foreign-produced products.

What if Americans couldn't buy foreign currencies? Wouldn't that solve the problem for Son of Hudson? Wouldn't that stop the devastating flow of foreign goods to these shores? Of course it would. So, here is my plan.

First, you get Congress to impose massive export restrictions on domestic producers. Make it illegal, or at least very expensive, to ship goods and services out of the country. That way, foreign buyers will start buying goods that are not “Made in U.S.A.” Just get the price of U.S. goods high enough, and foreigners will buy elsewhere, right? And if they refuse to buy American goods, there will be zero demand (or at least far less demand) for American dollars on the international currency markets. After all, if they can't buy our goods and services, why would they want to buy our money? Anyone can see this.

Now, if foreigners stop offering to buy dollars with their foreign currencies, then Americans will be unable to buy foreign currencies with dollars. And if they can't buy foreign currencies, they can't buy foreign goods. And best of all, nobody blames Son of Hudson Motors for its advocacy of a “selfish, short-sighted policy of protectionism.”

This probably seems like a peculiar way to make the case of saving Son of Hudson Motors from the onslaught of foreign competition. In fact, it sounds downright crazy. That, however, is my point. What sounds plausible from one perspective—the argument favoring tariffs—sounds nutty from

another perspective, namely, the prohibition of American exports. But the argument is the same, for the economic consequences are the same.

What if you were a concerned American citizen who had come to me in search of an answer to a problem, "How to save Son of Hudson from bankruptcy?" First, as a defender of tariffs, I might have offered you the typical arguments: unfair competition, dumping, low foreign wages, and so forth. My solution: restrict imports.

Not willing to leave you with any doubts, assume that I then proceeded to give you my alternative solution: the prohibition of American exports. At that point, I began to create doubts in your mind. Maybe I was overstating this thing. You had come to me in search of an intellectual justification for "buying American," and now I was sounding slightly off my rocker. But my argument is logical. Let me explain:

"You see, if foreigners can't buy American products, then Americans can't buy foreign products. You do see this, don't you? All the government has to do to protect Son of Hudson Motors is to prohibit the export of American grain, American chemicals, American computer software, and American technology in general. That would do it. Instead of putting a bunch of customs agents on the docks to keep out foreign-made products, all it has to do is to put them on the docks to keep in American-made products.

"Now look here, I want to help. You're looking at me rather strangely. Sure, it sounds a bit crazy. After all, isn't the whole idea to get people to 'buy American'? Now I come along and tell you that the best way to get Americans to buy American is to keep foreigners from buying American. You say that wasn't what you had in mind.

"What do you mean, that wasn't what you had in mind? Why didn't you say so in the first place? You wanted to know how to save Son of Hudson Motors from bankruptcy at the hands of foreigners. That's exactly what I'm showing you. But now you start complaining about my alternative plan. You didn't come here to ruin the American farmer, you say. You didn't come here to wipe out the international market for American technology, you tell me. All you wanted to know was how to save Son of Hudson.

"Look, let's stick to one problem at a time. You keep trying to change the subject. You keep wanting to get foreigners to buy American grain, chemicals, computers, and so forth, but you don't want Americans to buy foreign cars. You want Americans to buy American. But you also want foreigners to buy American. Look, friend, make up your mind. You can't have it both

ways. Congress can save a failing automobile company from foreign competition if we are willing to accept the destruction of our export markets. Congress can force Americans to 'buy American,' but only by forcing foreigners to 'buy foreign.' But if you want foreigners to have the economic ability to buy American products, then you have to allow Americans to buy foreign products. Either you want trade or you don't. It takes two to tango, my friend. Just who is it that you want to 'buy American'?

"Yes, yes, I know. You want everybody to buy American. Americans should buy American, and foreigners should buy American. Everyone should buy only American. Tell me, what do you mean by the word, 'buy'? I thought 'to buy' meant 'to exchange.' I thought it meant, 'I get something of his, if he gets something of mine.' Now you're telling me everyone should buy American products. Then tell me, please, just what is it that I get from the foreigner when he gets my property? If I'm supposed to sell him my grain, or computers, or whatever, what do I get in return? I'm not running an international charity, buddy. I'm not in this for amusement. If some foreigner wants to buy anything in my shop, he darned well better have something to give me. If I have to 'buy American' by law, and he wants to 'buy American,' too, he can do his shopping in somebody else's store. Some American seller may be stupid enough to 'sell' him something for nothing, but not me. I wasn't born yesterday, you know."

Defenders of the tariff idea really have yet to come up with an economic definition of the verb, "to buy." They call the government to come to the aid of a particular American industry by imposing tariffs, quotas, or other import restrictions, and simultaneously they call for Congress to enact export subsidies, loan guarantees for exporters, and similar coercive wealth redistribution schemes. Amazing, isn't it? Congress passes a tariff, and the next thing you know, American exporters are going bankrupt. So, Congress passes export subsidies, and the next thing you know, prices for everything start going up. So, Congress passes price controls, and the next thing you know, everything starts getting scarce. So, Congress passes a rationing scheme, and the next thing you know, the world economy collapses. What's a Congress to do?

What Congress should do is to allow voluntary exchange. I buy, he sells. I sell, he buys. In fact, every time I buy, he is buying. I buy his goods and give him money; he is really buying future goods. He is "buying money," but only because he expects to buy goods from someone who will be willing to ac-

cept the money later on. I sell him goods, and I "buy his money," but only because I want to buy goods later on.

When we ask people to "buy American," what do we really mean? If we ask Americans to buy American-made products, and only American-made products, then we are telling American producers to sell to American buyers, and only to American buyers. If people who want all Americans to "buy American" are not willing to admit that they are calling for American producers to sell only to Americans, then they had better drop their slogan. Conversely, if they want foreigners to have the option of "buying American" from American sellers, then they have to allow Americans the option of "buying foreign" from foreign sellers.

Conclusion

"To buy" is "to sell." It is the same transaction. It is an exchange. The person who suggests that Americans should buy only from Americans is suggesting the absolute abolition of international exchange for Americans. He is advocating the contraction of the international division of labor. He is advocating the reduction of international economic specialization. He is advocating international economic disintegration, given the key position of American trade, American capital markets, and American technology. He is advocating economic depression. He is advocating what would be a return to barbarism if all nations followed his advice.

We can save Son of Hudson, but only at the expense of some other American manufacturer. The more "freedom from foreign sellers" we give to one industry, the more "freedom from foreign buyers" we impose on another. The time has come to think through the economic, political, and moral implications of the slogan, "buy American." If we are upset by the implications, we had better abandon the slogan.

14

“FREE TRADE DESTROYS JOBS”

One of the most popular arguments among America’s anti-free trade non-economists is this one: free trade destroys American jobs. We need to think through the implications of this argument.

The case for voluntary exchange has nothing to do with the question of the number of jobs that voluntary trade is supposed to create, or not create, or even destroy. The case for voluntary exchange is based on the case for economic liberty. It is based on the idea that two individuals who want to better their condition have a legal right to make an exchange that each of them believes will improve his situation.

When two Americans, or two residents of any nation, get together to make an exchange, neither of them is thinking this: “Is my decision going to increase the number of jobs in the nation?”

Buyers do not worry about how many people will still be employed by the seller tomorrow, next week, or next year. Buyers want a good deal, and a particular seller offers the best deal available. Buyers do not care that the seller has fired half his workforce and has bought robots in order to get his costs down, thereby being able to make better offers to buyers. Anyone who thinks that buyers should care about how many workers are employed by the seller does not understand economics, and clearly does not understand human nature.

No seller comes into the marketplace with this sign: “Pay more for my products, so that I can employ more workers.” Well, this is not quite true. There are certain companies that sell imported coffee that attempt to charge higher prices for the coffee because they pay coffee employees in Third World nations higher wages. But you have never heard of these coffee companies. Hardly anybody buys coffee from them. The number of people they employ is so small because the amount of coffee they sell is so small. Their sales offer is not worth considering, most Americans conclude.

Let’s say that a buyer has a choice between two sellers. One of the sellers has made a manufacturing breakthrough, and has been able to fire half of his workers. He now offers a substantial price reduction to buyers. The buyers are

going to pay no attention to the fact that the other seller, who did not make the same breakthrough, and who has to pay twice as many workers, is unable to meet the price of the innovative seller. The buyer is going to buy from the innovative seller who is selling the product at a substantially lower price.

Some of the non-economists who are anti-free trade do not like this because they are members of labor unions. Labor unions in the United States have seen their membership fall, decade after decade, ever since the mid-1950s, as a direct result of innovative manufacturing technology. Conservatives have rejoiced; labor union members have groused.

Why, then, do we find these same conservatives, who were happy to see the unions shrink in numbers and influence, rush to the political barricades alongside of union members, and demand that Congress impose high sales taxes on imported goods? What convinced them to switch sides? What convinced them that saving jobs is the be-all and end-all for voluntary exchange in this unique case?

This is one more sign that the non-economists who hate free trade are not economists. They do not understand economics. They do not understand that the case for free trade is based on two individuals who want to make an exchange. If the two bargainers were on the same side of the national border, the non-economist conservatives would say nothing. But when the two are on opposite sides of the national border, the non-economist conservatives join with trade union members, demanding that Congress do something to stop the exchange.

Conservatives who don't like labor unions cheer when buyers purchase goods and services from sellers whose companies are not unionized. They recognize that the consumer, meaning the buyer, is better served by a lower price than he is by a large number of labor union workers on the floor, whose above-market wages are protected by the National Labor Relations Board. Yet these same conservatives demand that Congress not permit the same kind of exchange if one of the buyers is on the other side of the national border. The conservatives now adopt the rhetoric of the labor union movement. They call into question the legality of the exchange, specifically because the exchange will not lead to more jobs on the American side of the border.

This is what Ludwig von Mises called *polylogism*. This is the intellectual inability to apply the same economic reasoning across an invisible line called a national border. This marks the schizophrenia of the conservative movement. This is one more example of the fact the conservatives cannot

think straight. They cannot apply the same logic on two sides of an invisible line called a national border.

The case for free trade should be made in terms of personal liberty. Anyone who raises the issue of the number of jobs lost because of free trade has abandoned economics, has abandoned the case for liberty, and has abandoned the idea that buyers like good deals and should be allowed to negotiate them. The person has demonstrated in full public view that he cannot think straight. He cannot apply the logic of free-market liberty on two sides of an invisible line.

Ignore him.

15

“WE MUST PROTECT THE AMERICAN WORKER”

A member of my website, GaryNorth.com, posted a long question on tariffs. It included this.

I need help understanding the context on tariffs. I get it: tariffs are a tax, which I think is a stupid economic policy. A friend is all in favor of tariffs, citing the protection of the American worker. He concedes that tariffs make the consumer poorer but that the tax is worth it if it saves American jobs. I ask “How can a tax that makes goods more expensive protect American workers?” His refrain is a vehement “Without a job, no one can afford anything!” I don’t know to what extent tariffs protect jobs; on the face of it, it sounds reasonable. My friend’s hypothetical example is “If 5,000 American workers are out of [union-paid] job(s) because a manufacturer has moved overseas, it means that Americans can’t afford the goods that are supposedly cheaper due to unfettered competition!”

A. The Collectivist Mindset

I begin with this: “A friend is all in favor of tariffs, citing the protection of the American worker.” Fact: there is no American worker. There were 130 million full-time American workers in early 2020. (There were 100 million in June 2020—the lockdowns.)

Anybody who uses a collectivist phrase such as “the American worker” is a collectivist. He thinks in collective terms. He does not think in terms of individual freedom.

The man’s friend does not think in terms of 130 million people who go to work five days a week. He does not think in terms of the winners and losers in the competitive markets that we call labor markets. There are always winners and losers. Instead, he is focused on one tiny group of winners who

would otherwise be losers if there were no government intervention. He defines them as the American worker. They are not the American worker.

Somebody who produces a product that is too expensive because labor costs are too high should find another line of employment. His company is going to go bankrupt. That's the free market at work.

As consumers, we want efficient companies to compete against each other to sell us the things we want to buy. We do not think of "the American worker." We think of what we want to buy. We should not think of the American worker. Our responsibility is not to "the American worker." Our responsibility is to our families. We are not supposed to waste our money.

As a consumer, I am not responsible for workers. But I would like to see efficient workers stay in business. I would like them to continue to compete for my money. I don't know these workers, but I do know their products. I like their products.

The American worker has nothing to do with any of this. Specific workers have a lot to do with it. We must think of individual workers, individual companies, individual products, and our own individual decisions about buying one thing and not buying another thing. In short, when we analyze economic relationships, we should not begin with a collectivist myth: the American worker. Such a worker does not exist.

B. The Things Not Seen

Then there is this:

His refrain is a vehement "Without a job, no one can afford anything!" I don't know to what extent tariffs protect jobs; on the face of it, it sounds reasonable. My friend's hypothetical example is "If 5,000 American workers are out of [union-paid] job(s) because a manufacturer has moved overseas, it means that Americans can't afford the goods that are supposedly cheaper due to unfettered competition!"

This is a classic example of what Bastiat called the fallacy of the things not seen. It is at the heart of most economic fallacies. This is why Henry Hazlitt put this fallacy at the beginning of his classic book, *Economics in One Lesson*. I do the same with my book, *Christian Economics in One Lesson*.

Let us talk about the things not seen. The consumer who buys a cheaper

product in America because it has been imported from China now has more money to spend or save. He is not going to put that money under his mattress. He is going to put it in the bank, or he is going to spend it. If he spends it, he is going to spend it inside the United States. He is probably going to buy something produced in the United States. He is going to spend it on something produced by American workers in the United States.

Maybe the consumer saves his money. He puts it in the bank. So, the bank lends it to somebody who wants to buy a product, or the bank lends it to a business that wants to produce a product.

The pro-tariff person is indulging in the fallacy of the thing not seen. What he does not see is *the money saved or spent* by one or more American consumers.

It is possible that an American who works for a company that cannot compete with imported goods will lose his job. But isn't that what the free market is all about, which is the idea that consumers should have the right to buy what they want? The person who has asked too much for what he is selling should go out of business if a competitor comes in and supplies whatever it is at a lower price. The people who were employed by that company will go out and get jobs. The jobs won't pay as much, but they shouldn't pay quite as much. By demanding more than the consumer was willing to pay, these people lost their jobs.

They will not be unemployed. *They will be employed at a market wage.* That is what we all should be employed at. Why should anybody be allowed to demand an above-market wage based on government intervention? The tariff allows a relative handful of workers to demand wages above what the market would pay them if there were no government intervention.

Those American consumers who buy the output of these protected companies have less money to spend on the things they really want to buy. They would like to buy other goods and services, but they cannot afford to do this. So, people in companies inside the United States who would otherwise be able to sell goods and services to these consumers find that the consumers do not make the purchases. Why not? Because the government has intervened to protect a company or an industry that is now in a position to sell its output at a price above what consumers would otherwise be willing to pay.

What happens to jobs in those sectors of the economy that do not get orders from consumers? They disappear. One group of Americans, namely, those working in industries protected by tariffs, benefit, but they do so at

the expense of American workers in other companies that cannot find buyers among consumers who are victims of government intervention.

The defender of tariffs cannot understand this. He does not think logically. He cannot imagine the things not seen. All he can see is that an American company goes out of business because of superior foreign competition. He does not see the employment that would have resulted from the savings made available to consumers by the imported goods.

C. How Many Retail Goods Are We Talking About?

Not much. In a 2019 study, “How Much Do We Spend on Imports?” three economists concluded the following.

First, despite how individual shopping experiences may appear, the majority of U.S. personal consumption expenditures are on domestically produced goods and services. Second, nearly half of the amount we spend on imported goods stays in the United States to pay for the local component of the retail price of these goods. Third, almost half of the total expenditures on imports is embedded in the production of U.S. goods and services that use imported intermediate inputs. Taking all of these factors into account, import content in total PCE [personal consumption expenditures] was just over 10% in 2017.

This conclusion is similar to the conclusion that two of the three economists made in 2011. Things had not changed. Conclusion: the issue of tariffs really is a tempest in a teapot, economically speaking. As Americans learned in 2016 when Donald Trump was elected President on a platform of protectionism, the issue is a big deal politically. But tariffs have a small impact on the retail sales in the American economy.

D. Which Borders Are Economically Relevant?

I begin with a principle: American workers do their work inside borders. There are city borders, county borders, state borders, and the American border. I ask this question: Why is the American border economically relevant for discussing tariffs, but all of the other borders are not relevant?

Let us begin with one worker. He lives in Detroit. He demands \$30 an hour. He is a member of the United Auto Workers. Another worker in Ten-

nessee is willing to do the same amount of work for \$15 an hour. So, a Japanese auto manufacturer builds a plant in Tennessee, where it can hire all the workers it wants at \$15 an hour. It can therefore sell its cars cheaper than American cars made in Detroit. The person in Detroit loses his job. Does anyone who defends tariffs also defend the Detroit worker as "the American worker"? Of course not. He doesn't give a thought about the Detroit worker. He thinks that it is wise to hire an American in Tennessee at half the wage. He can buy a cheaper car this way. Or he can buy a better quality car at the same price as the American car.

What is the difference between the two borders? There is a state border around Michigan. There is a state border around Tennessee. There are borders in between. Who cares? Not a defender of tariffs.

What is the relevance economically of any border? There is a border down the middle of every road in America. People on one side of that border drive in one direction. People on the other side of the border drive in another direction. This is a judicial matter. But nobody says that there ought to be tariffs on goods imported from the other side of the street. Why not? Logically, why not?

How about borders that divide cities? Should there be tariffs on imports across these borders? I have never heard anybody argue this way.

What about borders between states? The original impetus of the United States Constitutional convention was to get rid of tariffs between the states. The Constitution achieved this goal.

If tariffs between cities make no economic sense, and if tariffs between states make no economic sense, then why do tariffs between countries make economic sense? The tariff defender says that they do make economic sense, but he cannot explain this without adopting the fallacy of the things not seen.

These people have two sets of economic logic. They apply economic logic, or maybe just ignore economic logic, when it comes to city borders and state borders. Then they say there is a different economic logic as it applies to national borders. Of course, they don't actually say this, but they implicitly assume it.

E. Badges and Guns

The pro-tariff person assumes this: *economic freedom is not a good thing*. Freedom allows consumers the right to buy what they want. "This is bad. We should not allow this kind of freedom. What we need is sales taxes."

This person says he is in favor the free market. But he is not in favor of the free market. He is just another defender of the idea that the state should send out a man with a badge and a gun, and stick the gun in the belly of the consumer. "You can't buy this, boy. You don't have the right to buy this. I've got this badge. I've got this gun. I'm not going to let you buy that. You got that, boy?"

The defender of tariffs cannot think logically. He believes that the President should send out people with badges and guns and stick those guns in the bellies of American consumers. He thinks it is moral. He thinks it is a good economic policy. He cannot think straight. He cannot imagine the fallacy of the things not seen. He literally cannot follow a very short chain of economic reasoning.

Conclusion

If you are going to get into an argument with somebody who, from the beginning, cannot think straight economically, and is a big advocate of government tyranny based on badges and guns, it is a good idea to think through why you are wasting your time arguing with this person. Your time is valuable. You are equally wasting your time with somebody who says he is in favor of low taxes, but then he says he is in favor of tariffs. He says he is in favor of the free market, but he is not in favor of free trade.

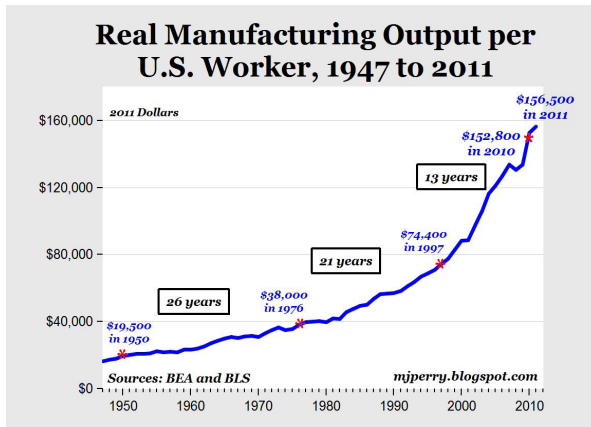
If you are going to debate with somebody, do your homework. I believe in doing my homework. I have spent the last 60 years doing my homework. I have published the results of this homework here. I have done the legwork. I have done the grunt work. All you have to do is read the results . . . and understand them.

16

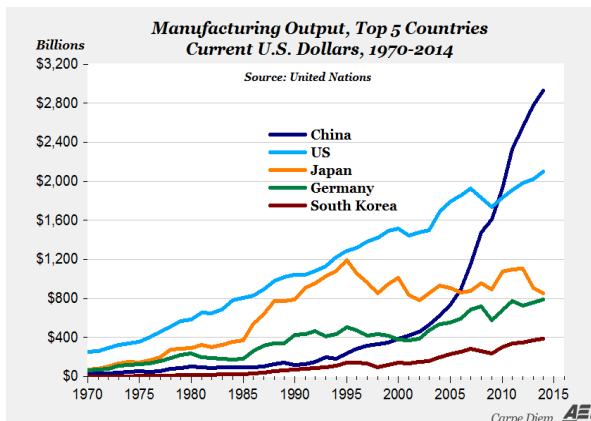
“FREE TRADE HAS DESTROYED AMERICAN MANUFACTURING”

This criticism of free trade is wrong.

To understand why it is wrong, first consider this chart of the per capita output of American manufacturing. It is not a chart that most Americans have ever seen. Economist Mark Perry has provided it.



He also provides another chart that shows manufacturing output in the five major manufacturing nations.

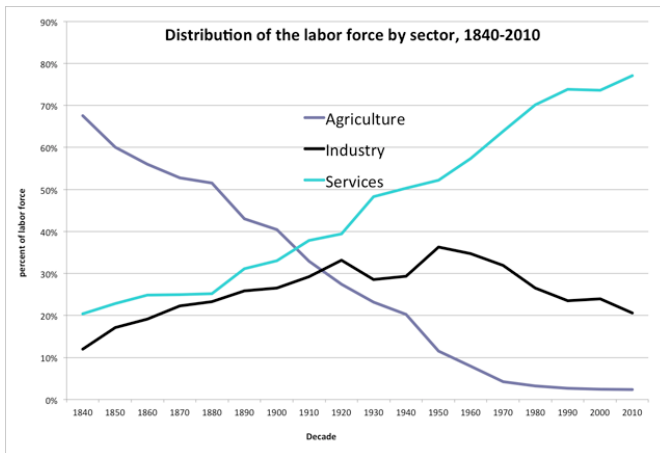


A. Manufacturing and Productivity

American manufacturing is a remarkable success. Yet it has flourished within a low-tariff/sales tax framework. It got more efficient. Firms hired fewer workers to maintain company productivity. That is what efficiency is all about: a reduction in the the price of inputs for any level of output.

Nevertheless, there are never-ending demands from protectionists who want the federal government to impose sales taxes on imported goods. These demands go back to 17th-century mercantilism. Protectionists believe that higher taxes promote economic prosperity. Politically conservative protectionists know that their call for higher taxes will be resisted by other political conservatives, so they do not call these sales taxes “sales taxes.” They call them tariffs. By concealing the economic growth-reducing nature of these sales taxes behind a politically and traditionally acceptable word, they gain support from conservatives who have never studied free-market economics, beginning with their complete ignorance about Adam Smith’s anti-mercantilist book, *Wealth of Nations*.

Here is what protectionists focus on: only about 11% of the American economy is based on manufacturing. To understand the importance—meaning unimportance—of this statistic, look at this chart. It is posted here: www.bit.ly/LaborDistribution.



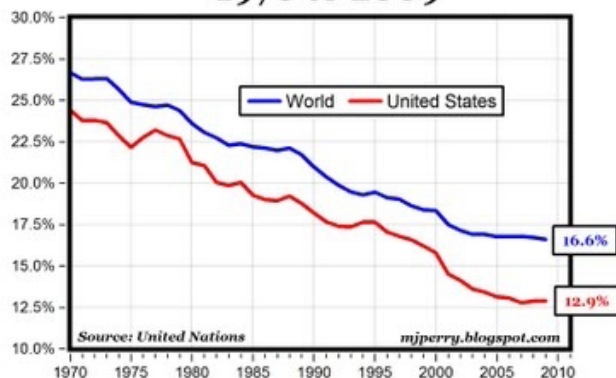
The chart overestimates employment in manufacturing, which combines manufacturing, construction, and mining as industry. The actual figure for employment in manufacturing is closer to 8% than 20%. What is

significant about this chart is this: *the service sector has been larger than the manufacturing sector ever since 1840*. What we see today is nothing new.

The biggest decline has been in agricultural employment. It has almost disappeared. But we do not worry about this, do we? The “heart of America” was agriculture in 1840: almost 70%. Now it is at 2%. Nobody cares. Output is high. Our farms export grains. The huge increase in productivity has displaced workers, beginning with the mechanical reaper in the 1840s. This is a good thing. It has happened all over Western civilization and Japan. It is now happening in China and India. This is a mark of increased wealth. Fewer workers are required to feed us city slickers.

All over the world, manufacturing as a percentage of GDP is falling.

Manufacturing Share of GDP: World vs. United States 1970 to 2009



What about employment in the private sector since 1948? It is posted here: www.bit.ly/LaborDistribution (see facing page).

Is America richer today than in 1948? In every sector, it is. In anything digital/electronic, our wealth is incomparably greater. I could barely function today if information costs were as high as they were in 1970, let alone 1948. I would have to live close to a major research library.

Think of your life. To what extent do you derive your lifestyle from manufactured products? Not much. Estimate this in terms of hours spent per day. Your tools are mostly digital. Your car, your home, and your appliances are your most obvious manufactured products. How often do you buy a replacement appliance? Once a decade? Are they cheap in terms of your income? Far cheaper than would have been true in 1948.

In those areas of life that are low value—manufactured goods—Americans have become increasingly dependent on imported goods. This is not true in highvalue areas of life: services.

If the regulatory system had been less onerous, would 30% of our wealth be derived from manufacturing? No. There would be some marginal increase above 11%. But if we also reduced regulation on services, the percentage of services in our lives would grow. Net, there would not be much change in the distribution.

Manufacturing is going the way of agriculture. But we are not getting poorer. This has been true since at least 1844: the mechanical reaper.

B. American Know-How

One of the most familiar stereotypes that Americans enjoy about themselves is this one: American know-how. I grew up hearing about it, and I'm sure that my parents did, too. There is a reason for this. Americans have been extraordinarily innovative in every area of the economy, and this includes manufacturing.

The number of inventions that Americans have made since the early 1840s is extraordinary. In the mid-1840s, there is the mechanical reaper. There was also the commercial telegraph. America is a nation of gadgets. We like them. We pay for them. Creative inventors come up with more and more of them.

But American wealth has been based on more than gadgets. Americans have been in the forefront of basic research throughout the 20th century. American research universities are the best in the world. This is why foreigners send bright children to receive their educations in the United States, especially in America's graduate schools. And then there is entrepreneurship. Americans have proven to be exceptionally good entrepreneurs. They start businesses, and they grow them. They make highly profitable businesses. The two richest men in the world, Jeff Bezos and Bill Gates, may their money as entrepreneurs. Bezos started out with a small company that sold used books online. Amazon is now the greatest retail business in the world. Neither of these men have made any money through manufacturing. Gates transformed American life through Microsoft, and these losses transforming American retailing through digits. In the phrase that is become increasingly popular, electrons have replaced atoms.

What the modern world is found is that the highest value productivity

has to do with information. It is not raw materials and capital equipment that make the difference economically. It is ingenuity, creativity, and marketing. Individuals who have a gift in these areas are far more likely to become rich than people who are skilled at producing physical objects. The more precise that robots get, the less value added a skilled craftsman will be able to produce in his narrow specialty. There is always a market for skilled craftsmen, but these markets will be niche markets that the robots have not yet invaded.

It is therefore a mistake to regard manufacturing is the essence of productivity. Even in the case of Andrew Carnegie, the great master of steel production in the late 19th century, it was innovation, not the mere production of metal, that was the basis of his enormous wealth. The same was true of John D Rockefeller. He found ways of manufacturing a simple product, kerosene, at lower and lower prices. He also found ways of transporting this kerosene around the nation and around the world more efficiently. It was not the kerosene that made the difference; it was the innovations that kept getting the kerosene cheaper.

The more mature a growing economy becomes, the more that it is dependent upon innovation, invention, and creativity to supply wealth for consumers and therefore wealth for producers. The person who develops a new way of doing things as more value and therefore makes more money than the person who works from a blueprint to manufacture some consumer good or capital good. The money is made in ownership of the blueprint, not the ownership of the factory that converts the blueprint into goods.

This is why free trade is not the primary source of the decline of American manufacturing. It is innovation that has done it, and most of this innovation has been made by Americans. Manufacturing has shrunk as a percentage of American output because of ever increasing efficiency of the factories that produce the goods. In 2015, two economists at Ball State University reported on the loss of jobs in American manufacturing. "Three factors have contributed to changes in manufacturing employment in recent years: Productivity, trade, and domestic demand. Overwhelmingly, the largest impact is productivity. Almost 88 percent of job losses in manufacturing in recent years can be attributable to productivity growth, and the long-term changes to manufacturing employment are mostly linked to the productivity of American factories." (<https://bit.ly/BallStateReport>). Imports from Asia did not do this. American know-how did it.

Free trade in manufactured goods is of marginal overall importance. Free trade in digital services will increase. The government cannot easily tax this kind of international trade. There are no tariffs and quotas on information. But protectionists never mention this aspect of free trade. They are focused on physical production, which is of declining value in our lives. They seek to protect manufacturing jobs—jobs that would steadily disappear if tariffs were at 100%.

Conclusion

The decline in American manufacturing is not the result of free trade. It is the result of our increasing wealth.

We can be confident in this scenario: (1) manufacturing will continue to decline in importance as a share in the United States economy; (2) robots will replace a larger percentage of manufacturing jobs than service jobs; (3) per capita wealth will increase, as it has since at least 1840.

If the federal government raises tariffs and quotas, this will lead to a displacement of American-made robots by foreign-made robots. It will have no significant impact on the number of workers in manufacturing. The main question is where the robots will be located: onshore or offshore. Protectionists make their case in terms of American manufacturing jobs. These jobs will continue to disappear under free trade or protectionism.

17

“CORPORATIONS THAT HIRE FOREIGN WORKERS ARE IRRESPONSIBLE”

Critics of corporations that hire foreign workers argue that these corporate managers are acting irresponsibly. I answer as Forrest Gump’s mother answered: “Irresponsibility is as irresponsibility does.”

To whom, exactly, are senior managers responsible? First and foremost, senior managers have an economic obligation to customers. This is not a legal obligation, assuming they do not commit fraud, but it is an economic obligation. If they violate the moral standards of the customers they serve, they will lose some percentage of these customers. The customers will decide that senior managers are not doing the right thing, and therefore they are going to buy from companies whose managers do the right thing, in the opinions of the customers. The customers make the decision on whether or not to buy from a particular company. This decision has economic impact on the financial status of the companies, and therefore also on the ability of the managers to profit from their position as managers.

If customers decide that the price is right, and the quality is right, then they will buy from a particular company. If they think that the company is violating national moral standards by hiring foreign workers, they will cease buying from this particular company. They will take their business elsewhere. They will decide where to spend their own money. They have legal control over their money, and so they have a legal right to make the decision on what to buy, when to buy, and how much to pay. If they don’t like how managers are running the company, they don’t have to buy from the company. I think this is a simple principle to understand, but apparently critics of the free market do not understand it.

This principle is sometimes called consumer sovereignty, but I prefer to call it *customer authority*. It stems from the fact that customers have money, and money is the most marketable commodity. Business owners want to persuade customers to hand over some of their money in exchange for the output of the businesses. Customers have authority; critics who do not buy

from the company who do not own corporate shares have no legal stake in the decisions of corporate managers. If they don't like what the managers are doing, they don't have to buy the products produced by the companies the managers run.

If senior managers decide on the best way to make a particular company profitable, that is their decision. Customers can decide if the decisions of the corporate managers are wrong, either economically or morally. *In terms of economic analysis, the senior managers are acting as economic agents of customers.* They owe nothing to non-customers, unless these non-customers are owners of shares in the corporation. In a free society, the rest of the population doesn't have any stake in the outcome.

In other words, the senior managers are making the decisions as agents. They are making decisions as *economic agents* on behalf of customers. They are making decisions as *legal agents* on behalf of the shareholders. But, apart from customers and shareholders, nobody else ought to have any say in the matter. This is the logic of the free market. It is called *laissez-faire*: let us alone.

There are millions of people who claim to be defenders of the free market, but who in fact are economic interventionists. They believe that they have a right to criticize how other people handle their property. They believe that if other people do not handle their own property in the way that the critics think it ought to be handled, the critics have a legal right to go to politicians and demand that other people change their ways. This is statism, and it is widespread in nations whose citizens regard themselves as defenders of liberty, defenders of economic freedom, and defenders of the capitalist system. They are in fact defenders of mercantilism, the welfare state, and economic regulation.

These people believe in the nanny state. They believe that they have the right to have politicians pass laws, and then have faceless bureaucrats in executive agencies enforce these laws. They believe these administrators, who cannot be fired, have the right to send out people with badges and guns to tell other people what to do. The people with badges and guns insist that companies should not have the right to hire laborers of their own choice, at prices that laborers and employers agree on voluntarily.

This shows a lack of faith in the fundamental principle of private ownership. It shows that voters do not trust customers. In other words, *they don't trust themselves.* They call upon the state to intervene. They shout: "Stop

me, before I spend again!" They know that they buy goods and services from companies that hire foreign workers, and they believe that they literally cannot stop themselves from doing this. They believe that other customers are morally wrong, just as they are morally wrong, and they believe the state should intervene to keep anybody from buying goods and services produced by companies that hire foreign laborers.

All of this is going to come to naught as algorithms begin to expand their influence in our lives. It is politically impossible to organize voters to stop the use of algorithms. Senior managers can decide to use these algorithms to run companies inside a particular nation's borders. There is nothing that voters can do about this, which is a good thing.

We can buy digital goods and services across borders with no intervention. This is a good thing. It keeps the nannies among us from interfering in our lives.

If you want to blame someone for the fact that a particular corporation uses foreign laborers, blame the customers, not senior managers. Senior managers are acting economically on behalf of customers. If customers don't like the policies of a particular corporation, they can legally buy the output of a rival corporation. This is easy. Analytically, it ought to be easy to understand, but it isn't.

Conclusion

Here is the bottom line: if customers are not willing to pay more money to buy the output of another corporation that does not hire foreign workers, then it is none of the rest of our business.

Unless we own corporate shares, we should have no say in the matter. To the extent that we attempt to have a say in the matter by asking the government to restrict the use of foreign laborers, we are identifying ourselves as opponents of liberty. We don't like the free market. We don't think customers and sellers have a legal or moral right to work out whatever arrangements they think are best for themselves. Ultimately, we don't trust ourselves as customers. We don't trust ourselves, so we don't trust economic liberty. It is a sad comment on the way we live in that we literally don't trust our own judgment as customers, and insist that politicians and bureaucrats intervene to tell us what to do and what not to do with our money.

18

“AMERICAN WORKERS NEED PROTECTION AGAINST SLAVE LABOR”

For over 50 years, I have heard this justification for the imposition of tariffs. Of all the criticisms of free trade, this one is not only the stupidest, it is the least defensible factually. It assumes that governments have always imposed tariffs or other restrictions against the output of slave laborers. What we find, on the contrary, is that governments virtually never impose tariffs or restrictions on imports of goods by slave laborers. This is because the main exports of slave labor societies are raw materials. In other words, the argument does not conform to the facts. The person who uses it has never looked at the facts. He is mindlessly repeating an argument that sounds moral, but which in fact is stupid.

A. The Myth of Impotent Capitalism

Let me summarize the position, in terms of the economic assumptions lying behind the argument. Let us strip the argument of all sense of moral indignation, which is utterly fake.

We know that slave labor is highly productive. Free enterprise cannot compete with slave labor. There is no way that a free society can compete, head-to-head, against a slave society. The centralized planning of slave societies is just too productive. No worker operating in a capitalist nation can defend himself and his job by means of his own economic productivity. He needs someone standing at the border with a badge and a gun to prohibit the import of goods produced by slaves.

Anyone who argues that the free market system is highly productive, and is fully capable of competing against slave labor, is completely ignorant about the enormous productivity of slave labor. He is equally ignorant about the pathetic productivity of the free market.

Slave societies are highly productive. There is nothing like a man who is forced to work at the point of a gun, and who is threatened with starvation if he refuses to work, to become a master craftsman, a highly efficient producer of specialized goods and services, or a master designer of high-technology goods.

The enormous productivity of slave labor is such a threat to peace-loving people in the rest of the world that it is imperative that politicians send out people armed with badges and guns to prohibit the import of goods that have been produced by hordes of slave laborers. If this is not done, the pathetically inefficient workers living under free-market capitalism will see their wages collapse due to the incomparable productivity of slave labor.

Does this argument sound ridiculous? Of course it does. It is an implicit attack on the efficacy of free-market institutions. It is an implicit attack on the productivity of workers who have been empowered by the enormous investment of capital made in the West over the past two centuries. It is arguing that slave labor is productive, and free labor is unproductive. So preposterous is this argument that no one ever states it clearly. The person either does not understand the implications of his argument—that workers in free societies must be protected against the output of slave labor—or else he really believes that slave societies are enormously productive, and that free societies simply cannot compete with them.

The person who invokes this argument never provides any statistical evidence that the goods produced by slave laborers are bought by customers in free societies. The person cannot point to products that are made by slave laborers, and then show that these products have a significant market share in free-market societies. In most cases, the person cannot name a single product that is produced by slave labor that anybody has ever heard of. Yugoslavia was a Communist society. It was dependent on coerced labor. The most famous product it ever produced was one of the great laughingstocks in the history of automobile production: the Yugo.

The major slave societies of the twentieth century were Communist societies: China, North Korea, the Eastern bloc of the USSR, and the USSR itself. They exported almost nothing of value. The myth that the USSR exported manufactured goods of marketable quality was destroyed by the

three-volume academic study by Anthony Sutton in the early 1970s: *Western Technology and Soviet Economic Development*. Something in the range of 95% of Soviet technology was either stolen from the West or exported from the West to the USSR.

B. Raw Materials

Workers in advanced societies do better when they can buy domestically manufactured goods made with low-cost raw materials. Raw materials are the only marketable exports of societies that can plausibly be regarded as slave societies. The only examples of imports from slave labor societies that might be used as examples of goods that have penetrated Western markets are raw materials, especially oil. The value of these exports from slave societies is almost entirely due to the economic value imputed by Western customers to the raw materials. The labor component of these exports is insignificant. Coerced laborers are able to extract minerals and other raw materials from the earth. This is unsophisticated labor. The output of these slave-based extraction industries would be much greater if the planners allowed free-market capitalism, but the high value of the raw materials offsets the low value of the labor that was used to produce them.

We rarely hear of any Western society that imposes tariffs or other restrictions against the import of industrial minerals and raw materials. (American tariffs on sugar are an exception, as I have mentioned. These tariffs go back to the 1790s.) Never do we hear of import restrictions on foreign-produced oil. So, the argument that Western workers must be protected against slave labor is refuted by the open import of minerals and other raw materials, which are then used by free-market workers to produce valuable goods. Free-market workers become the beneficiaries of the imported raw materials and oil. So, the one plausible example of the truth of this cliché of protectionism is never found in actual practice.

Conclusion

“American workers need protection against slave labor.” The argument has never been defended seriously by any economist that I have heard about. It is a knee-jerk objection offered by somebody who has never studied international trade or economic theory. You know instantly the moment you hear anybody raise this objection to free trade that this person knows virtually nothing about economic theory.

If you ever hear this argument, ask the person to name which slave societies your nation trades with. He will not be able to name any. If he does, ask them what we import from that nation. He will have no idea. If you really want to fluster him, ask him to not identify the three nations that constitute the bulk of foreign trade with his nation. First, he has no idea which three nations are the major trading partners are. As soon as you show him which nations these are (Wikipedia probably reports it), ask him to identify which of these nations relies on slave labor to produce the goods and services that it exports. As soon as he sees the list, he will be stuck for an answer. Every large trading nation trades mainly with other nations that are marked by the free mobility of labor, highly developed capital markets, sophisticated research institutions, and capital-intensive productivity. None of these characteristics is found in a slave labor society.

In short, the argument is preposterous both in terms of economic theory and in terms of economic facts. No slave labor nation finds markets in the West for its manufactured products. Its products are too shoddy to penetrate the markets in the West.

19

“AMERICA NEEDS TO NEGOTIATE BETTER TRADE DEALS”

A common cliché of protectionism is this one: the United States government needs to negotiate better deals for American companies.

It is time to call a spade a spade. *This is fascism.* Fascism is the economics of a *government-business alliance*. There should be no government-business alliance. The government should not be involved in business. Whenever government gets involved in business, it is always done to favor certain businesses at the expense of all the rest of them. It always involves a repression of decision-making on the part of individual buyers and sellers. There are no exceptions. There are always going to be a few winners and a lot of losers. But we do not see the losers. This is what Bastiat in 1850 called “the fallacy of the things not seen.”

If I say this to the standard conservative, he nods his head in agreement. He is convinced that the government is up to no good when it intervenes into the free market. Then, a few minutes later, he tells me that the government should actively negotiate better trade deals for American businesses. In other words, *his default setting on trade is fascism.* He does not understand this. He does not understand economic logic, and he does not understand the meaning of the so-called business-government alliance.

There is only one legitimate justification for tariffs: as sources of revenue. In the United States Constitution, originally, the United States government was not allowed to tax individuals directly. This was done in order to restrict the power of the federal government. The federal government was allowed to tax liquor, which it did. The other main source of income was from tariffs. A tariff is a discriminatory tax placed on imports, but the Constitutional justification for it in 1787 was to restrict the power of the federal government to tax people directly through income tax assessments.

Once the 16th amendment was announced in 1913 as having been passed, the justification for tariffs disappeared. From that point on, the tariff was just another discriminatory tax against imports and exports.

Yes, it is a discriminatory tax on exports. Because foreigners cannot sell all that they could otherwise sell to Americans, they cannot get their hands on United States dollars. When they cannot get their hands on United States dollars, they do not order American goods or invest in American companies. So, import restrictions are always export restrictions, and vice versa. I realize that almost no Americans or any other nationality understand this, because it involves economic reasoning, and people are not adept at economic reasoning.

A. Negotiating Against Liberty

This brings me to the idea that governments should negotiate tariffs and other quotas with foreign nations.

Why should any government agency negotiate in favor of any American business? What is the economic logic of this? This is one more example of government interference into the operations of the free market. Yet Americans who claim that they do not want government intervention in the marketplace loudly insist that some American trade negotiator has an obligation to get a better deal for America.

For America? For a collective? For all of America? How? The government cannot achieve this in any other field of economics. It is always discriminatory. There are always winners and losers. How is it possible for trade negotiators to get a better deal for all Americans? They can't. It's a myth.

The free market is not about getting a better deal for America, or the state of California, or Los Angeles County, or some municipality. The free market is an extension institutionally of personal liberty. It is an extension of the idea of private property. The idea of ownership mandates the idea of disownership. If I cannot legally sell something, I do not possess full ownership. So, the government's task should be clear: to defend my right to buy or sell irrespective of anyone else's opinion. If this leads to a so-called national trade deficit, it is none of the government's business. If it leads to a national trade surplus, it is also none of the government's business.

Most people do not believe this. They honestly do not believe that the free market is an unplanned institutional result of the right of private property. They believe that the market and international trade is not a free market, but rather an extension of the federal government.

The federal government's task, as defined by agents of the federal government, is to interfere with the market process. Most voters accept this intel-

lectual justification of federal power in the case of the discriminatory sales taxes called tariffs. They love this with respect to bureaucratic negotiators who go in front of other nations' bureaucratic negotiators and try to get a better deal. But the only way for a government to negotiate with another government is to threaten negative sanctions. The threat is this: "We will raise our tariffs if you don't lower your tariffs." This is a threat to impose a discriminatory tax on American consumers. In the past, this threat has led to trade wars. These are tariff wars. These are competing wars to expropriate wealth from citizens on both sides of the border. Government negotiators threaten to steal from importers and exporters of goods in their own nations.

B. Government Negotiators

In 1969, I wrote an article: "Tariff War, Libertarian Style." It was published in *The Freeman*. I reprinted it in Chapter 11. I ended with this: "The statist tariff war is irrational. It argues that because one's citizens are injured by one restriction on foreign trade, they can be aided by further restrictions on foreign trade. It is a contemporary manifestation of the old cliché, 'He cut off his nose to spite his face.' It is time that we accept the implications of David Hume's two-hundred-year-old arguments. The best way to overcome restrictions on trade, it would seem, is to establish policies that encourage people to trade more."

I can no more get this idea across to self-proclaimed libertarians who favor government agencies as negotiators for business than I can convince Pat Buchanan that discriminatory taxes on Americans are a bad idea. The mindset is simple: "The government is here to help us, and we should make it stronger."

Anyone who argues in favor of tariffs, and anyone who argues in favor of tariff negotiation by government agencies, is afflicted with this schizophrenic mindset.

I suggest that if you are so afflicted, that you do what you can to reduce the affliction. Sit down, and say to yourself over and over, "The federal government is not here to help me. It is here to help special-interest groups that are acting against my interests."

Conclusion

The best response to a foreign nation that increases tariffs against American imports is to lower tariffs against that nation's exports. Sellers of goods

in that nation will then have lots of dollars in American banks to spend, and they will have to spend it somewhere in America. Trade, after all, is a two-way street. The more trade there is, the wider the range of choice for Americans. This is the case for free trade. The case for free trade has never been about aiding certain special-interest groups at the expense of Americans who want to trade.

The best approach for negotiating better deals on trade is to allow buyers and sellers on both sides of the border to do all of the negotiating. Get the United States government out of the negotiating business. Cut tariffs to zero, and leave them there. Stop all future negotiations by the government.

Part 4
DIALOGUES ON TRADE

INTRODUCTION TO PART 4

These three chapters are in the form of dialogues. Dialogues are not popular these days. There was a time when great works were written in the form of dialogues. But these dialogues are not great works. They are more like humor pieces than profound observations of the way the world works. Nevertheless, for those people who have understood the logic of free trade as opposed to the logic of protectionism, the positions taken by the fictitious debaters should be clear. If you understand the logic of free trade versus protectionism, you will easily recognize the fallacies of the fictional defenders of protectionism in these three dialogues.

The dialogues will reinforce what you have already learned. By now, you should understand the basics of free trade as an alternative worldview to protectionism. You have gone through some of the more prominent clichés of protectionism. You understand why they hold no water. Now you are ready for the mopping-up phase of the assault on protectionism. This is where I show that arguments that are conceptually silly sound as silly as they really are.

The dialogues are not loaded with sophisticated insights. They are short and to the point. The arguments are brief on both sides. But they get to the point. Long, detailed arguments eventually get to the point, but they lose most of the readers who started out in hopes of understanding the debate between the two sides. If you understand the logic of both sides in each of the dialogues, you will be equipped to handle any of the presentations that a defender of protectionism might present to you. But, in all likelihood, you will never find a defender of protectionism who is sophisticated enough to follow the arguments in the dialogues, let alone in the clichés, and surely not the more detailed arguments that I presented in Part 2. The best that you can hope for is that he is capable of understanding the positions presented in Part 1, both of which are literary rather than intellectually combative. If somebody can understand “I, Pencil” and “The Petition of the Candlemakers,” he is unlikely to remain a defender of protectionism.

This section of the book is more literary than it is academic. But academic arguments have not rolled back protectionism in the thinking of voters in the modern world, any more than they rolled back the same thinking in the 18th century. If the great logician David Hume did not persuade protectionists, and the great economist Adam Smith did not persuade them, then my logical arguments will probably not have any greater success. Literary arguments will help you understand how to deal more effectively with the unsustainable logic of protectionism than a collection of formal economic essays would have done.

In any case, the dialogues will be more fun to read than academic essays. You have read enough academic essays.

20

SMITH, WONG, BORDERS, AND BADGES

Two men want to make a voluntary exchange. Let's call them Smith and Wong. There is nothing immoral about what they want to trade. Smith lives on America Blvd. Wong lives on China Ave. They are in different states. They are chatting in a market on Trade Street.

Wong wants to sell Smith a flatscreen TV. Smith wants to buy one.

A man walks up to them. He says, "Are you contemplating a trade?"

Smith says, "What's it to you?" Wong, being polite, let's Smith do the talking.

The man pulls out a badge. "I'm with the government. I don't answer to you."

Smith says, "What right have you got to ask us any questions?"

The guy opens his coat. There is a gun. "This gives me the right."

Smith says: "What business is it of yours whether this man and I want to trade?"

The man says, "Congress has made it my business. Congress controls the terms of trade."

"Not here," says Smith. "We have not crossed any national border. We live in the same state."

The man with the badge says: "Congress says it has jurisdiction over what a farmer plants in his back yard for his own use. Congress says, and the courts have decided, that this food might otherwise have been traded across a border. So, Congress has jurisdiction."

Smith: "But there is no threat here. We just want to make a trade. He wants to sell me a flatscreen TV."

Badge: "Sorry, but Congress sees it otherwise. I am here to tell you that Congress has passed a sales tax on buying anything from a foreigner with slanty eyes."

Smith: "But that's racial profiling."

Badge: "It's not. I have been tailing this guy for days."

Smith: "But this man is an American."

Badge: "No, he isn't. Although he dresses like an American, he in fact

comes from China. He lives on China Avenue, but he only rents. His citizenship is in China. His cousin's factory made the TV. His cousin lives in China."

Smith: "But he is here now. We may want to make a trade."

Badge: "You can, but only if you pay the U.S. government a sales tax."

Smith: "I never heard of a federal sales tax."

Badge: "That's because it's called a tariff."

Smith: "What is the difference between a tariff and a sales tax on imported goods?"

Badge: "Voters won't reelect Congressmen who vote for tax increases. So, it's called a tariff."

Smith: "You mean that voters will accept a tax if it's not called a tax."

Badge: "As surely as they will accept a welfare check if it's not called welfare."

Smith: "Is this prohibition on trade only about taxes?"

Badge: "It's not just about taxes. It's also about *true* freedom of trade."

Smith: "What is true freedom of trade?"

Badge: "Free trade plus sales taxes."

Smith: "Does it take badges and guns to enforce Congress's definition of freedom of trade?"

Badge: "It always has."

Smith then concedes that, in this case, the government is right. He should not have to pay a tax to the U.S. government for items bought from men with pieces of paper that say "Born in the U.S.A.," but he admits that he owes the tax on purchases from a man with no piece of paper and with a cousin who lives on the other side of an invisible line called a national border.

Freedom of trade depends on invisible lines called borders, he thinks. Not all borders, of course. The county border between America Blvd. and China Avenue is not a real border. The national border between America and China is.

According to the United States Congress, Badge explains,

When border #1 is a county border, freedom of trade means freedom of trade. It means no sales tax on just one seller's good. If either party pays money, he owes a sales tax to a local government or a state government. It does not matter where he lives.

When border #2 is a national border, freedom of trade means paying a sales tax to the the U.S. government, but only when the buyer is on the American side of the border.

This makes sense to Smith. He is a graduate of a public high school. He knows that Congress is on his side. He decides to pay more for that flatscreen TV. He hands the money to Wong, and Wong pays Badge the sales tax.

21

“BUY AMERICAN!” VS. “BUY, AMERICAN!”

In Chapter 20, I discussed a voluntary exchange between Smith and Wong. Once again, we meet up with Smith and Jones. Wong has made an offer to Smith. Smith thinks it's a good deal. Jones is irate. He protests. He thinks that Smith should pay a sales tax to the federal government whenever he buys from Wong. Jones calls this sales tax a tariff. He prefers not to mention the phrase, “sales tax.” He knows that voters resist sales taxes, but they favor tariffs.

Smith does not want to pay a sales tax on something offered for sale by Wong but not to Jones if he buys from Jones. A discussion begins.

Smith: “Wong’s offer looks like a good deal.”

Jones: “It’s not a good deal for America.”

Smith: “It’s a good deal for me.”

Jones: “You’re not America.”

Smith: “Who is?”

Jones: “People who live in America.”

Smith: “Which people who live in America?”

Jones: “People who work in America.”

Smith: “What about people who buy in America?”

Jones: “That depends on who they buy from.”

Smith: “Why should it matter who we buy from?”

Jones: “It matters to Americans.”

Smith: “It doesn’t matter to me. I just want a good deal.”

Jones: “It’s not a good deal for most Americans.”

Smith: “Most Americans don’t care what I buy.”

Jones: “But they care what people like you buy.”

Smith: “Who are people like me?”

Jones: “People who don’t always buy from Americans.”

Smith: “What about imported raw materials?”

Jones: “That’s OK.”

Smith: “But what about Americans who sell raw materials?”

Jones: "They had better lower their prices."

Smith: "That's what I tell sellers of manufactured goods."

Jones: "That's different."

Smith: "Why is it different?"

Jones: "Because sellers of raw materials did not labor to produce raw materials."

Smith: "What has labor got to do with it?"

Jones: "Everything."

Smith: "Why isn't ownership the only legal issue governing buying and selling?"

Jones: "It is: the ownership of labor."

Smith: "Not raw materials."

Jones: "Correct."

Smith: "Do you labor for a living?"

Jones: "Yes."

Smith: "Does your employer sometimes buy raw materials?"

Jones: "Yes."

Smith: "So, you want your employer to buy raw materials at a good price?"

Jones: "Yes."

Smith: "So, he buys imported raw materials."

Jones: "Yes."

Smith: "Do you want sales taxes on imported raw materials?"

Jones: "No."

Smith: "I agree. I don't want sales taxes on imported products."

Jones: "That's where you and I differ."

Smith: "What do we differ on?"

Jones: "The need for sales taxes on the output of foreign workers."

Smith: "But we agree on the absence of any need for sales taxes on imported raw materials."

Jones: "So it seems."

Smith: "So, you distinguish between good sales taxes and bad sales taxes."

Jones: "Yes."

Smith: "What is this difference?"

Jones: "Sales taxes are appropriate when imposed on the output of foreign labor."

Smith: "But not foreign raw materials."

Jones: "Correct."

Smith: "So, what should matter judicially is the ownership of labor, not raw materials."

Jones: "Correct."

Smith: "Why?"

Jones: "Because America needs cheap raw materials."

Smith: "But not cheap manufactured goods."

Jones: "That depends on who offers cheap goods."

Smith: "What if it's foreign sellers?"

Jones: "Then the imports should be taxed."

Smith: "But that costs Americans more money. Also, the government gets bigger."

Jones: "That doesn't matter if it protects American labor."

Smith: "But isn't the idea to make American workers richer?"

Jones: "Yes, it is."

Smith: "But if they can buy more with their wages, they get richer."

Jones: "I can see where this is headed."

Smith: "Good for you."

Jones: "You are going to argue that lower-cost imports will reduce the cost of living for Americans."

Smith: "Correct."

Jones: "But low-cost imports from foreign nations will hurt American workers who live in America."

Smith: "What about American workers who live in Wyoming?"

Jones: "What about them?"

Smith: "Aren't they hurt by imports from the other 49 states, plus Washington, D.C. and Puerto Rico?"

Jones: "Of course not."

Smith: "Why not?"

Jones: "Because of the border. They are all inside America. Everyone inside America should be allowed to compete for American buyers?"

Smith: "What about competing for foreign buyers?"

Jones: "Them, too."

Smith: "Who buy our exports with what?"

Jones: "Dollars."

Smith: "How do you think they get these dollars?"

Jones: "They buy them."

Smith: "What do they sell to buy them?"

Jones: "Whatever they own."

Smith: "Such as raw materials."

Jones: "Yes."

Smith: "And labor."

Jones: "I can see where you're going with that."

Smith: "You are a true scholar."

Jones: "Well, I'm not buying it."

Smith: "Buying what?"

Jones: "That argument."

Smith: "Even if I give it away for free?"

Jones: "There are no free lunches. You're not giving it away. You're trying to get me to agree that we should lower sales taxes on imported goods."

Smith: "Correct."

Jones: "Here is my view: Americans should buy American."

Smith: "So, your slogan is: 'Buy American.'"

Jones: "Right."

Smith: Mine is this: "Buy, American."

Jones: "You added a comma."

Smith: "With that comma, I added a concept: the benefit of buying something with your own production."

Jones: "Is that because it makes no sense to produce something and then throw it away?"

Smith: "Correct."

Jones: "But you can save your money."

Smith: "That means I put money in a bank, which then makes money available for borrowers to buy goods, either consumption goods or production goods."

Jones: "So, you have to buy something."

Smith: "Unless I withdraw currency from my bank and hide it, yes. It rarely pays to do this. In any case, I plan to buy something later, when prices fall."

Jones: "I say Americans should buy American-made goods. If they want foreign-made goods, they should pay a tax."

Smith: "so, uou think 'buy American' is a moral principle."

Jones: "Yes."

Smith: "You think that 'buy, American' must be subordinated to 'buy American.'"

Jones: "Yes."

Smith: "As a moral principle."

Jones: "Yes."

Smith: "Because what's good for American workers is good for all America."

Jones: "Yes."

Smith: "And lower prices are not good for Americans."

Jones: "Not for imported goods."

Smith: "Only for imported raw materials."

Jones: "Yes."

Smith: "What about imported oil?"

Jones: "That's an exception."

Smith: "So, you are for energy self-sufficiency."

Jones: "Yes."

Smith: "You are for using up American oil now."

Jones: "Yes."

Smith: "So that we can import it later."

Jones: "Yes."

Smith: "Even if it costs more later?"

Jones: "Yes."

Smith: "So, you don't want free-market pricing to let people decide whether to import oil or buy it from American producers."

Jones: "Correct."

Smith: "Why is this?"

Jones: "Because we should not always trust the free market."

Smith: "But the free market is based on the freedom of exchange."

Jones: "Correct. That's the problem. It's dangerous."

Smith: "What is?"

Jones: "Freedom of exchange."

Smith: "Why is it dangerous?"

Jones: "Because too many Americans don't know what's good for them."

Smith: "Such as lower prices."

Jones: "For imported goods."

Smith: "But not raw materials."

Jones: "Correct."

Smith: "Except for oil."

Jones: "Correct."

Smith: "So, we can trust Americans when they buy American goods made with imported raw materials?"

Jones: "Yes."

Smith: "But not goods made by foreign workers."

Jones: "Correct."

Smith: "Because it's good for Americans to tax other Americans."

Jones: "Sometimes."

Smith: "So, you are not calling for a hike in sales taxes generally."

Jones: "Correct."

Smith: "You are calling for federal sales taxes only on imported manufactured goods."

Jones: "Correct."

Smith: "To nudge Americans to buy American."

Jones: "Who said anything about nudging? I think the government should send out people with badges and guns to get Americans to stop buying . . . or else."

Smith: "Why is that?"

Jones: "Because people should buy American."

Smith: "Which is different from 'buy, American.'"

Jones: "Yes."

Smith: "I appreciate your time. Your time is valuable."

Jones: "Not so much these days."

Smith: "Why is that?"

Jones: "I got fired. My company transferred production to Mexico."

Smith: "Why?"

Jones: "They said our union had hiked wages too high."

Smith: "How do you and your wife get by without your paycheck?"

Jones: "We buy at Walmart."

Smith: "Which sells imported goods?"

Jones: "As I tell my wife: 'You do what you have to do.'"

Smith: "Indeed, we do."

22

EXPORT TAXES ARE A BAD IDEA

This is a recent discussion between the Export Tax Guy and the Free Trade Guy.

Maybe you think to yourself: “Nobody is in favor of export taxes. Lots of people are in favor of export subsidies by the national government, but nobody is in favor of export taxes.”

You are incorrect. **Everyone who favors a sales tax on imports necessarily also favors attacks on exports.** A tax on imports has the same economic effect as a tax on exports. The trouble is, there are lots of people who are in favor of import tariffs. Import tariffs are import sales taxes. Import sales taxes have exactly the same economic effect as export sales taxes. But people who are in favor of sales taxes on imported goods, which they refuse to refer to as sales taxes, do not understand the logic of economics. They do not understand that a tariff on imported goods has exactly the same economic effects as a sales tax on export of goods. So, here is a dialogue that explains why they really are economic equivalents.

ETG: “What this country needs is an export tariff.”

FTG: “How would it work?”

ETG: “Every exporter would pay a tariff on the retail price of everything it exports.”

FTG: “So, it’s a sales tax on exports.”

ETG: “That’s correct.”

FTG: “And why should the government do this?”

ETG: “It needs the money.”

FTG: “So, you are in favor of added taxes.”

ETG: “Extra export sales taxes, yes.”

FTG: “So, you want the government to spend more money.”

RTG: “Correct.”

FTG: “So, you are a Keynesian.”

ETG: “Of course not. I am a defender of free enterprise.”

FTG: “You think that free enterprise is promoted by raising taxes.”

ETG: "Yes. Sales taxes. On exports."

FTG: "Any other taxes?"

ETG: "Sales taxes on imports."

FTG: "So, you want bigger government to help promote free enterprise."

ETG: "Yes."

FTG: "So do Keynesians."

ETG: "But Keynesians are not supporters of real free enterprise."

FTG: "What is real free enterprise?"

ETG: "Free enterprise that is promoted by high sales taxes on exports."

FTG: "And imports."

ETG: "Right."

FTG: "How do taxes on exports promote free enterprise?"

ETG: "Because they reduce the number of exports."

FTG: "How?"

ETG: "By raising prices to foreigners."

FTG: "So, they will buy less from American exporters because post-tax prices are higher."

ETG: "Correct."

FTG: "Why is that good for free enterprise?"

ETG: "Because it makes available more American-made goods for Americans to buy."

FTG: "Because the goods are not shipped to foreigners."

ETG: "Correct. So, consumer prices will fall in America."

FTG: "So, this is a subsidy to American buyers of American-made goods."

ETG: "Correct."

FTG: "This subsidy is paid for by Americans who want to buy foreign goods, but who will cut back because of reduced imports due to reduced exports."

ETG: "Correct."

FTG: "So, free enterprise requires government subsidies to one group of American buyers at the expense of another group of American buyers."

ETG: "Correct."

FTG: "But this is not Keynesianism."

ETG: "No, it isn't."

FTG: "Why not?"

ETG: "Because Keynesians want the government to do the spending."

FTG: "But you want the federal government to collect sales taxes."

ETG: "Yes."

FTG: "Won't the government spend this money?"

ETG: "Not if it is used to pay down the national debt."

FTG: "So, you think Congress will balance the budget."

ETG: "Yes."

FTG: "And then run a surplus."

ETG: "Yes."

FTG: "With the surplus, Congress will pay off the national debt."

ETG: "Yes."

FTG: "Has this ever happened before?"

ETG: "In 1835. The federal debt fell to zero."

FTG: "For one year."

ETG: "Yes."

FTG: "And you think this will happen again."

ETG: "Yes."

FTG: "So, in the meantime, the federal government imposes an export tax to increase its revenues and also subsidize American consumers of American-made goods."

ETG: "Yes."

FTG: "What about the Americans working in the export sector?"

ETG: "A lot of them will lose their jobs."

FTG: "Is this fair?"

ETG: "You have to break some eggs to make an omelet."

FTG: "You mean Congress has to break some privately owned eggs to make its omelet."

ETG: "I don't see it that way."

ETG: "How do you see it?"

ETG: "The American people must restore the free market."

FTG: "By increasing taxes, making the government larger, and bankrupting marginal export firms."

ETG: "Yes."

FTG: "The free market way."

ETG: "The true free market way."

FTG: "But if foreigners don't buy American exports, they will not buy dollars."

ETG: "True."

FTG: "But if they don't buy dollars, the dollar will fall in value."

ETG: "Precisely."

FTG: "You mean you want the dollar to fall?"

ETG: "Yes."

FTG: "Why?"

ETG: "So Americans will not be able to afford to buy as many foreign-made goods."

FTG: "Is that a good thing?"

ETG: "Yes."

FTG: "Why?"

ETG: "Because foreign manufacturers use slave labor."

FTG: "You mean Canada? Our major trading partner is Canada."

ETG: "I don't mean Canada."

FTG: "What about China? It is our number-two partner. Is it a slave labor society?"

ETG: "It used to be."

FTG: "Yes, it did. But when it was, it did not have anything worth buying. The United States did not trade with Mao's China. Almost no one did."

ETG: "But it used to be a slave labor society."

FTG: "Well, it's not now. Here are our other trading partners, in order of their total trade with us: Mexico, Japan, Germany, the United Kingdom, South Korea, Brazil, and France. Which of these is a slave labor nation?"

FTG: "None of them."

FTG: "Then which nations are you thinking of?"

ETG: "North Korea and Cuba."

FTG: "But we don't import anything from North Korea or Cuba."

ETG: "I want to keep it that way."

FTG: "So, we should raise sales taxes, expand the federal government, bankrupt marginal exporters, and drive down the international value of the dollar so that Americans won't start spending money buying imports from North Korea and Cuba."

ETG: "Yes."

FTG: "This is the real free market way."

ETG: "Yes."

FTG: "So, you really want to reduce imports, not just exports."

ETG: "Of course. That's what an export tariff does. It reduces imports."

FTG: "I understand this. But you are the first supporter of tariffs I have

met who understands this.”

ETG: “Sadly, there are a lot of promoters of tariffs on imports who do not understand economic logic.”

FTG: “I have noticed that, too.”

ETG: “I also think import tariffs are a great idea. It’s not enough to reduce imports by an export tariff. We need import tariffs to bring in more tax revenue. But with import tariffs low, we need export tariffs, too.”

FTG: “So, you think most Americans will rally to the idea of export tariffs.”

ETG: “I do.”

FTG: “Why?”

ETG: “Because they will see that higher sales taxes, a larger federal government, government-subsidized consumer prices, bankrupt exporters, unemployed Americans, a falling dollar, and reduced consumer choice are real free enterprise.”

FTG: “Then why not prohibit all exports?”

ETG: “That’s crazy. What do you think I am, a Communist?”

FTG: “It had crossed my mind.”

ETG: “I don’t like your attitude. You free trade economists are all alike. You think the free market is about unrestricted free trade.”

FTG: “Well, yes.”

ETG: “You forget about slave nations.”

FTG: “That we don’t trade with.”

ETG: “You forget about managed trade in foreign nations we do trade with.”

FTG: “We don’t think the solution to government-managed trade in a foreign nation is managed trade in the United States. We can’t solve the problems of government intervention by more government intervention.”

ETG: “Yes, we can. We should fight fire with fire.”

FTG: “What about fighting fire with water?”

ETG: “I don’t follow you.”

FTG: “Why not reduce sales taxes on imports, in order to get added trade? Why add more taxes here to stop the bad effects over here of more taxes over there?”

ETG: “You economists confuse everything. Nobody can follow your arguments. Anyway, nobody I know can follow your arguments.”

FTG: “You mean like reducing domestic sales taxes on Americans as a

way to offset the negative economic effects of foreign sales taxes on foreigners?”

ETG: “Exactly! I say you should read less Mises and more Lincoln. Read a real American. Lincoln said it best back in 1832. ‘My politics are short and sweet, like the old woman’s dance. I am in favor of a national bank, in favor of the internal improvements system, and a high protective tariff.’ That man could speak! His words send chills down my spine.”

ETG: “They send chills down my spine, too.”

ETG: “Here is what we need: real free enterprise. American free enterprise. None of that imported intellectual stuff from Austria. “

ETG: “So, let me summarize your position. You want tariffs on exports, which you say will reduce the number of imports.”

ETG: “Correct.”

ETG: “You want tariffs on imports, which you say will reduce the number of exports.”

ETG: “Correct.”

ETG: “You are saying that a sales tax on imports has the same effect as a sales tax on exports.”

ETG: “Yes. Both forms of sales taxes reduce trade.”

ETG: “So, you want to reduce international trade.”

ETG: “But only until foreign governments reduce their tariffs to zero.”

ETG: “But, until then, Congress should impose sales taxes on exports.”

ETG: “Yes.”

ETG: “Which no other nation does.”

ETG: “Yes.”

ETG: “So, Congress should raise sales taxes on international trade as a way to persuade the rest of the world to reduce sales taxes on international trade.”

ETG: “Correct.”

ETG: “That does not sound logical to me.”

ETG: “You’re not Congress.”

ETG: “You’ve got me there.”

ETG: “So, what do you think of my plan?”

ETG: “I think it is every bit as logical and coherent as anything I have heard from any promoter of import tariffs.”

ETG: “Thank you!”

ETG: “You’re entirely welcome.”

CONCLUSION

You now know more about the flawed logic of protectionism than 99% of the public. You even know more about protectionism and how to deal with its flawed logic than the readers of three volumes of academic economic theory. That is because this book has focused on a specific problem: free trade vs. protectionism. This issue is at the heart of free-market economic analysis. A standard free-market book is not focused on this central issue: free trade and its critics. Anybody who is not intellectually and verbally proficient in refuting the flawed logic of protectionism does not understand economic theory. This issue is the touchstone of economic theory. It was for Adam Smith, and it still is today.

The case for free trade is the case for liberty and its economic benefits. The case for liberty is based on the case for private ownership. The case for private ownership is based on a negative command: “Thou shalt not steal” (Exodus 20:15).

The case against protectionism is the case against the illegitimate use of state power to favor special-interest producer groups whose members are not sufficiently competitive to be profitable in a free-market economy. It is the case against people who would gladly remove other people’s liberty by means of the threat of state violence. Ultimately, it is the case against the interference with the legitimate use of private property: the exercise of ownership. If you have the right to own something, then you have the right to sell it. It does not matter in either moral principle or economic analysis that the person to whom you sell your property lives on the other side of an invisible judicial line called a national border.

Protectionism produces poverty because protectionism stifles liberty. The case for the free market as a source of economic growth is the case for liberty. The case for protectionism as a source of economic growth is an argument against liberty. It is a denial of all free-market economics from David Hume until the present. It is the case for a morally backward world. It argues that raising taxes increases economic growth and creates prosperity, but only on one side of a border. If put this way, the case for protectionism

would be rejected by almost everyone who calls himself a defender of free-market capitalism. But defenders of protectionism never put it this way. They get away with avoiding the logically inescapable implication of their position because most verbal supporters capitalism do not understand economics. They do not understand simple economic logic. So, they do not challenge protectionists to explain how it can be that raising taxes increases the wealth of individuals, organizations, and nations, but only on one side of a national border: the side whose politicians have raised taxes.

Economists apply the same economic principles on both sides of every border. They apply the same principles on both sides of the street, both sides of a city border, both sides of a state or provincial border, and both sides of a national border. This is not true of defenders of protectionism. They apply the same logic of free trade and its benefits to individuals and groups to both sides of borders up to, but not including, national borders. As soon as their analysis reaches a national border, they abandon it. Without explaining how or why, they argue against liberty as a source of prosperity. They argue in favor of discriminatory sales taxes on imported goods. They admit that raising sales taxes on all other goods is bad for consumers, but they insist that raising taxes on imported goods is good for consumers on their side of the national border. They do not talk about the and prosperity-reducing effects on a majority of consumers on their side of the national border. They also do not talk about these same negative effects on consumers on the other side of the national border. This is an example of what Ludwig von Mises called polylogism.

Do you understand what I have written in the previous paragraph? Could you argue this with a protectionist? If not, you need to re-read this book. I have introduced you to accurate economic theory by the teaching technique of refuting inaccurate economic theory. I have shown you what is wrong with an idea that continues to gain adherents, despite Adam Smith's refutation in 1776, and also despite the almost universal rejection of this idea by economists ever since. You are now ready to take the next step. It is time for you to learn the basics of what is right economically, and even more important, why it is right. I use "right" in the sense of intellectually correct, and also in the sense of morally right. You are ready for my book, *Christian Economics in One Lesson* (2nd edition, 2020). You are also ready for Volume 1 of my four-volume set: *Christian Economics: Student's Edition* (2019).

INDEX

accounting, 79–80

advantage, 89
agriculture, 65–67, 84, 129, 131
algorithms, 135
American worker, 121–22
Annapolis convention, 2
Antoinette, Marie, 66
Asians, 85, 88, 90–91
automobile plants, 85–86
autonomy, 39

badges/guns

acts of war, 75
anti-freedom, 125–26
borders, 28
Civil War (1861–65), 110
creativity?, 24
final jurisdiction, 38
legitimacy, 1
logic, 68
opposition to, 73–74
This Side, 52, 55
wealth producing?, 131
bait and switch, 43–44
balance of trade, 99–100
Bank for International
Settlements, 71
Bank of the United States, 48
Bastiat, Frédéric, 7, 15–18, 122
belly, 27–28, 76
Bernhard, Richard, 96
Bible, 30–36
bidding, 38
blockade, 70
bookkeeping, 79
borders

California, 2
effects, 68–69
lines (invisible), 56
logic &, 28, 73, 164–65
natural, 2
relevance, 2, 124–25
born yesterday, 116–17
bribery, 108
bridges, 74
Brown, 1–2, 52–54, 56
Buchanan, at, 142
“Buy American,” 111–17
buyer, 34 (see also customer)

cake, 6

Calhoun, John C., 109
California, 2
Canaan, 33
Canada, 2–3, 92
cancer, 55
cars, 111
cedar, 11
Chesterton, G. K., 7
China
agriculture, 81–82
cancer, 55
Communism, 130
manufacturing, 81, 131
poverty (rural), 89–90
choices, 34, 50, 53
Christian economics, 21, 38
Civil War (1861–65), 109–10
Clay, Henry, 109
coercion
legalized, 38
manufacturing sector, 131

mercantilism, 25
 selective, 28
 wealth &, 82
 coffee, 118
 collectivism, 38, 121
 common sense economics, 95
 comparative advantage, 89
 competition, 15, 31, 54, 95, 96, 108, 123
 Congress, 49
 conservatives, 48–55, 88–90, 119
 Constitution, 2, 49, 89
 consumers, 17, 97, 111–12, 122–23
 (see also customers)
 crony capitalism, 49
 currency exchange, 78–79
 customers, 44, 47, 54, 133–34

decisions, 21

demographics, 90
 dentistry, 93
 Detroit, 124–25
 dialogues, 147
 division of labor, 99, 117

Edomites, 30, 32

efficiency, 97, 107–8
 Egypt, 31
 envy, 86–90
 ethics, 67, 68
 exchange rate, 100
 export controls, 114–16
 export tax, 69, 158–63
 exports, 32, 61–62, 68–69

farmer, 78

fascism, 140
 FEE, 7

France, 65–67
 free lunches, 95
 free market, 21, 44, 137
 free trade
 Adam Smith, 39
 anti-intervention, 21
 arguments for, 42–43, 75
 beneficial, 89
 choice, 24, 53
 coercion vs., 1
 comparative advantage, 89
 competition, 97
 critics, 134, 164
 defense of, 21
 denial of, 94
 increased, 24
 jobs &, 118–20
 liberty &, 34, 118, 141
 logic, 67
 lower costs, 80
 manufacturing, 81–84, 127–33
 Mises, 37
 Moses, 31
 mutual advantages, 89
 negotiation, 140–43
 ownership &, 105, 264
 raw materials, 138
 right to bid, 38
 specialization, 80
 unions, 119
 wealth &, 23, 24, 59
 (See also trade)
 freedom, 34

gasoline, 111–12

GATT, 58
 General Will, 38, 39
 golden calf, 30

graphite (pencil), 11

Green, 52, 56

guilds, 95

Gump's mother, 133

gun/belly, 27–28, 41, 76

guns/badges (see badges/guns)

Hamilton, Alexander, 48–49

Hamiltonians, 27–28, 51, 55, 59–60

horse's head, 55

Hudson (car), 111–17

Hume, David., 23, 99–100

"I, Pencil," 9–14

imports/exports, 68–69

immigration, 57–58

income tax, 56, 72, 140

individuals, 21, 25

Industrial Revolution, 84

inefficiency, 107–8

information, 25, 25, 108

intervention, 21

Israel, 30–33

jealousy, 87

jobs, 118–20, 126

Johnson, Lyndon, 58

Jones/Smith (see Smith/Jones)

just price, 95

Kennedy, Teddy, 58

Keynesianism, 49

law, 67–68

liberty, 67, 108, 118, 120, 141–42,
164

Lincoln, Abraham, 109–10

logic

Americans, 92

badges/guns, 68

border's sides, 64–65, 73, 164–65

impervious to, 24, 50, 75

polylogism (see polylogism)

single, 73

war, 70

losers, 69

managed trade, 3

managers, 133–35

manufacturing, 81–84, 127–33

Marx, Karl, 72

master mind, 13

mercantilism

arguments, 41–42, 45–46

badges/guns, 28

blindness, 24

coercion, 25, 27

crony capitalism, 29

default setting, 23, 90

mistrusts consumers, 26

monopolies, 25

protectionism, 47

state worship, 25–26

statism, 41

tariffs, 40

welfare state, 40

wolves, 40

methodological collectivism, 38

Mexico, 91–92

Milton, John, 87

miracles, 13

Mises, Ludwig, 37, 73–74, 101, 119,
165

money, 30–32, 133

monopolies, 17, 25, 96

Moore's law, 83–84, 132

Moses, 30

NAFTA, 3

nanny state, 134

nation

aggregates, 21

analysis, 105

collective, 105

conservatives, 40

customers, 44

deceptive, 44

economic theory, 45

Hamiltonianism, 51

mercantilism, 41–42

state &, 46

strengthening, 107–10

nationalism, 1, 21–22

nationhood, 53

negotiation, 140–43

OPEC, 112, 114

O'Rourke, P. J., 93

ownership, 21, 38, 105, 164

***Paradise Lost*, 87**

passports, 56, 57

peace, 70–71

pencil, 7–8

petition of candlemakers, 15–18

Plato, 46

politics of plunder, 75

polylogism, 73–74, 119–20, 165

poverty

big government, 82

choices, 34, 53–54

liberty vs., 164

nations, 1

trade restrictions, 1

trade vs., 92

private property, 38–39, 44

producers, 17

productivity, 128–30, 137

protectionism

arguments, 45–46

badges/guns, 131

bait and switch, 43

coercion, 1

collectivism, 46

gun/belly, 41

Keynesianism, 49

mercantilism, 47

Mises vs., 37

nationalism, 1

vital industries, 98

quotas, 27, 31, 109**raw materials, 138**

Read, Leonard E., 7

Red Sea, 32

riches, 91, 92 (see also wealth)

Rio Grande River, 52, 56

roads, 74

robotics, 83, 132

Rothbard, Murray, 86, 87

Rousseau, J. J., 38

rubber, 12

rule of law, 67–68

sales taxes (see tariffs: sales taxes)

Satan, 87

Schoeck, Helmut, 86, 87

self-interest, 46

Sinai, 31

slave labor, 146–37

Smith, Adam

autonomous market, 39

borders, 46

free trade, 39–40
 mercantilism, 3, 23
 natural liberty, 39, 46
 self-interest, 89
 Smith/Badge, 149–50
 Smith/Jones, 1–2, 51–53, 56, 74,
 152–57
 socialism, 39–40, 87, 88
 South, 109–10
 Soviet Union, 88, 137–38
 soybeans, 77–79
 special interests, 26–27
 specialization, 80, 84
 state
 legalized coercion, 38
 mercantilism &, 25–26
 nanny, 134
 nation &, 46
 sovereignty, 25, 45
 trusted, 28
 wisdom of, 25
 worship of, 25–26
 statistics, 25
 subsidies, 31, 34, 61–62
 sugar, 27, 138
 sunlight, 15–18
 Sutton, Antony, 61–62, 138

tariffs

act of war, 71, 75
 arguments, 41, 66
 badges/guns (see badges/guns)
 bait and switch, 43–44
 beneficiaroes, 97
 collectivism, 43
 discriminatory taxes, 35–36
 effects, 97
 exports reduced, 31

Hamilton, 49
 immigration &, 57–58
 income tax &, 140
 inefficient producers, 107–8
 intervention, 21
 jobs, 118–20, 126
 justification, 44, 140
 liberty vs., 35
 losers, 98, 108–9
 mercantilism, 40
 retaliatory, 101
 revenue only, 40, 72
 robots &, 132
 sales taxes, 22, 26, 36, 49, 88, 96,
 107
 slave labor, 136–39
 statism, 41
 subsidies, 31, 34
 sugar, 138
 train tracks, 74
 unions, 131
 vital industries, 98
 wartime, 60–61
 welfare state, 71–73
 tariff war, 94–102
 taxation (see sales taxes)
 Tennessee, 125
 This Sideism, 51–55, 58–61
 Tocqueville, Alexis, 98
 Toyota, 77, 113
 trade
 advantage, 89
 balance of, 99–100
 fair, 95
 Hume on, 100
 managed, 3
 restraint of, 74
 (See also free trade)

- trade war, 98–99
- trees (pencil), 8
- truth, 28
- twisting arms, 113
- unions, 82–83, 119, 124–25, 131–32**
- United States government, 38
 - USMCA, 3
- USSR, 88
- Walmart, 94**
- war, 60–61, 69–71
- Washington, George, 48
- wealth
 - Asians, 91
 - badges/guns, 46, 82, 131
 - choices, 50
 - coercion vs., 82, 131
 - customer service, 29
 - free trade, 23, 59
 - indicator, 81
 - liberty &, 34
 - manufacturing, 81–84
 - national, 1
 - one/many, 39
 - reduction, 44
 - sales taxes vs., 47
 - This Side, 51–52
 - trade &, 91
 - welfare state, 71–73, 75
- Wilson, Woodrow, 57
- wilderness, 32
- winners/losers, 68, 97–98, 108–9, 121–22
- wonder, 7–8
- Wong, 74, 149–50
- Yugo, 137**